

**City of Rockville  
Pension Fund**

**Analysis of Investment Performance  
through September 30, 2008**



**George Kiriakos  
Vice President**

*November 2008*





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November 11, 2008

Board of Trustees  
City of Rockville Pension Fund  
111 Maryland Avenue  
Rockville, MD 20854

Dear Trustees:

This report presents our updated analysis of the City of Rockville Pension Fund's investment performance and traces the growth of assets through September 30, 2008. It is based on data provided to us by your custodian and the various investment managers. The report illustrates the investment performance of the overall Fund and also shows results by asset class segment and by individual manager in comparison with the various performance benchmarks defined in the Fund's statement of guidelines and objectives.

We hope you find this report useful as a tool for monitoring the performance of the Fund as well as a basis for discussion of the investment issues surrounding the investment program. We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

George Kiriakos  
Vice-President

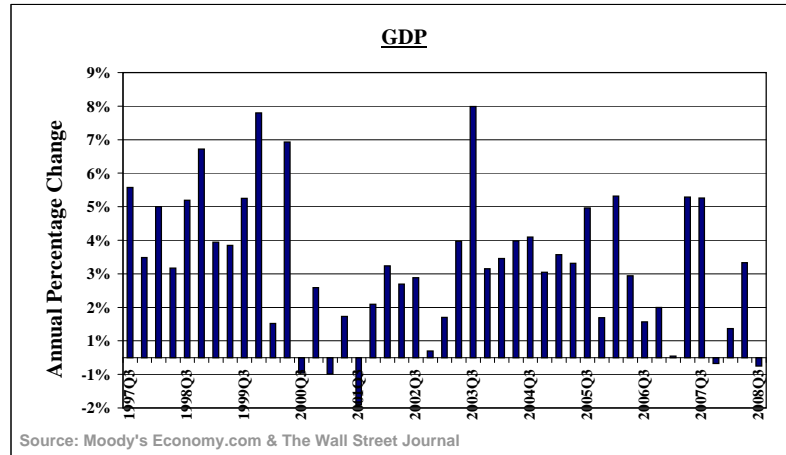


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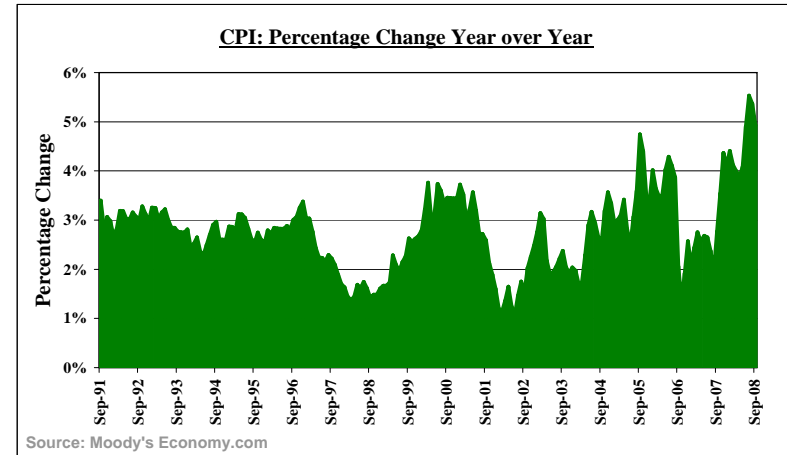
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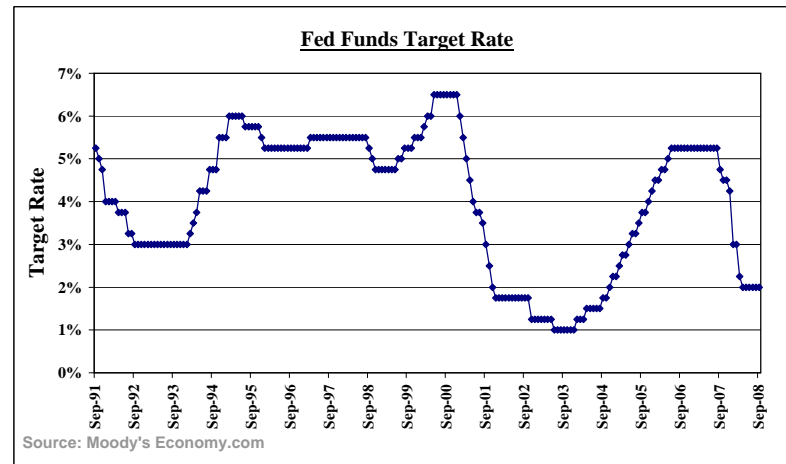
## Macroeconomic Themes



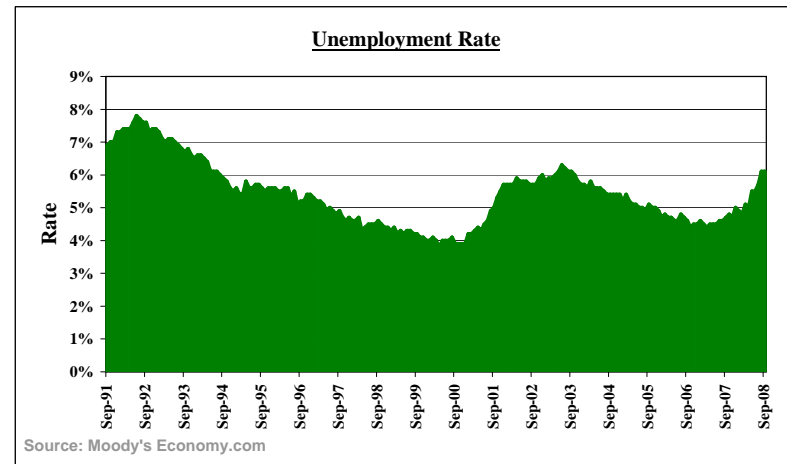
- Q3 2008 GDP declined at a 0.3% annualized rate, which was slightly better than the consensus expectation of a 0.5% drop. Over the past year, real GDP increased 0.8%. Both consumer spending and investments in business and housing fell from Q2, significantly impacting the decline in GDP. Outputs of goods and services fell for the first time since Q4 of 2007.



- Headline CPI in September remained flat compared to August, while the year-ago percentage change was 4.9% as of September 30, 2008. The core index, which excludes food and energy prices, increased 0.1% from the previous month and 2.5% on a year-over-year basis during Q3. The flat headline CPI number shows that consumer demand has fallen in all sectors in response to the current economic situation.



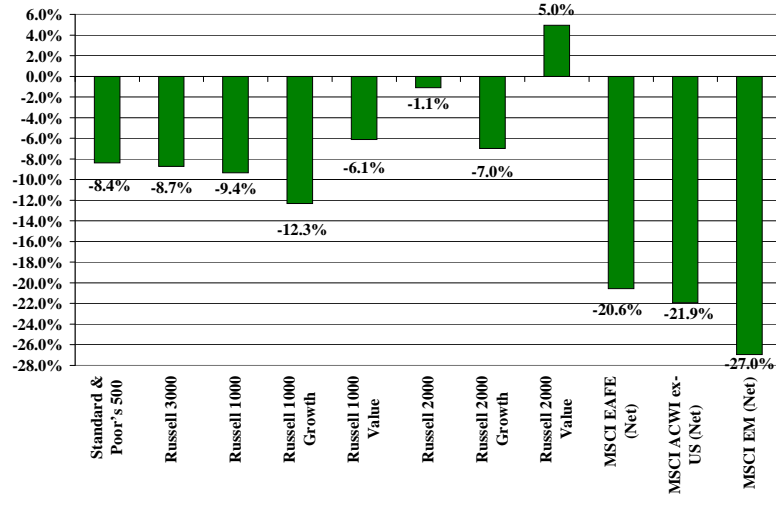
- In response to prospects for lower inflation, the deteriorating economy, and intensifying financial stress, the FOMC decided to keep the fed funds target rate unchanged at 2% at the August 5 and September 16 meeting. In the weeks preceding the meeting, the Treasury Department took over Fannie Mae and Freddie Mac, Lehman Brothers declared bankruptcy, Bank of America purchased Merrill Lynch, and the US government provided AIG an emergency loan. Therefore, going into the meeting, there were significant concerns that economic conditions would further deteriorate.



- The unemployment rate remained unchanged at 6.1% in September. Payroll employment fell for the ninth straight month by 159,000, with losses spread across all industries. Among service industries, the greatest losses were in retail (-40,000), temporary help (-24,000), financial activities (-17,000), leisure/hospitality (-17,000), and transportation/warehousing (-16,000). Education, healthcare, and mining were the only sectors that continued to expand throughout Q3.

## Selected Equity and Fixed Income Index Rates of Return for Periods Ended September 30, 2008

**Equity Index Returns: Quarter Ending 9/30/08**

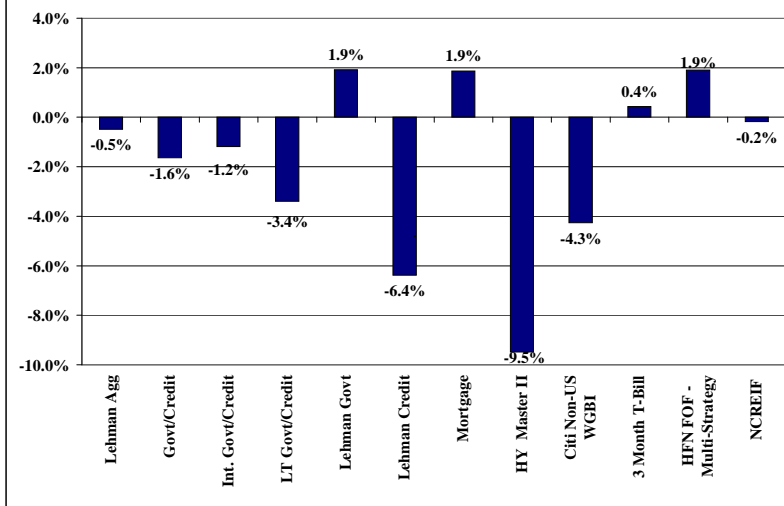


### Equity Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Standard & Poor's 500	-8.4%	-19.3	-22.0	0.2	5.2	3.1
Russell 3000	-8.7%	-18.8	-21.5	0.3	5.7	3.8
Russell 1000	-9.4%	-19.5	-22.1	0.1	5.5	3.5
Russell 1000 Growth	-12.3%	-20.3	-20.9	0.0	3.7	0.6
Russell 1000 Value	-6.1%	-18.9	-23.6	0.1	7.1	5.6
Russell 2000	-1.1%	-10.4	-14.5	1.8	8.2	7.8
Russell 2000 Growth	-7.0%	-15.3	-17.1	1.5	6.6	4.7
Russell 2000 Value	5.0%	-5.4	-12.3	2.0	9.5	10.1
MSCI EAFE (Net)	-20.6%	-29.3	-30.5	1.1	9.7	5.0
MSCI ACWI ex-US (Net)	-21.9%	-29.9	-30.3	2.6	11.3	6.9*
MSCI EM (Net)	-27.0%	-35.5	-33.2	8.4	18.7	14.8*

\*For 10-year performance, Gross returns are provided.

**Fixed Income and Other Index Returns: Quarter Ending 9/30/08**



### Fixed Income Indices

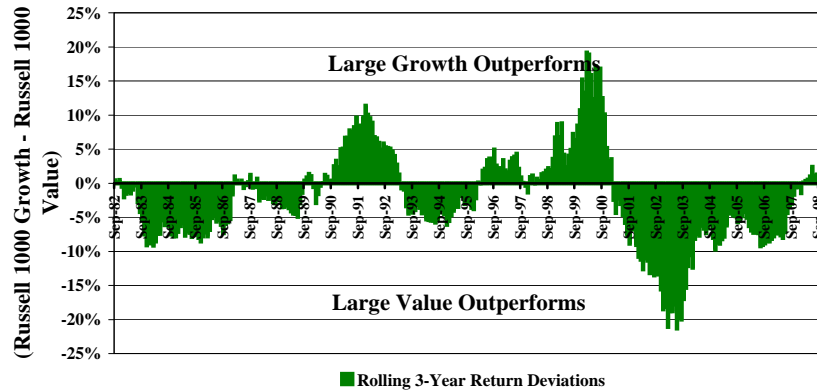
	Quarter	YTD	1-year	3-year	5-year	10-year
Lehman Aggregate	-0.5%	0.6	3.7	4.2	3.8	5.2
Lehman Govt/Credit	-1.6%	-0.7	2.4	3.6	3.3	5.0
Lehman Int. Govt/Credit	-1.2%	0.2	3.1	4.0	3.3	5.0
Lehman Long Govt/Credit	-3.4%	-4.1	-0.4	2.0	3.7	5.3
Lehman Govt	1.9%	4.0	7.9	5.6	4.3	5.3
Lehman Credit	-6.4%	-6.8	-4.8	0.9	1.9	4.5
Lehman Mortgage	1.9%	3.8	7.0	5.5	4.8	5.7
ML High Yield Master II	-9.5%	-10.6	-11.7	0.9	4.3	4.3
Citigroup Non-US WGBI (Un)	-4.3%	1.2	5.2	5.5	5.6	5.2
Citigroup 3 Month T-Bill	0.4%	1.5	2.6	4.0	3.1	3.4
Other Indices						
HFN HFOF Multi-Strategy*	1.9%	-2.0	0.2	7.9	7.4	8.6
NCREIF Property Index	-0.2%	2.0	5.3	13.2	14.2	11.8

\*As of 6/30/2008



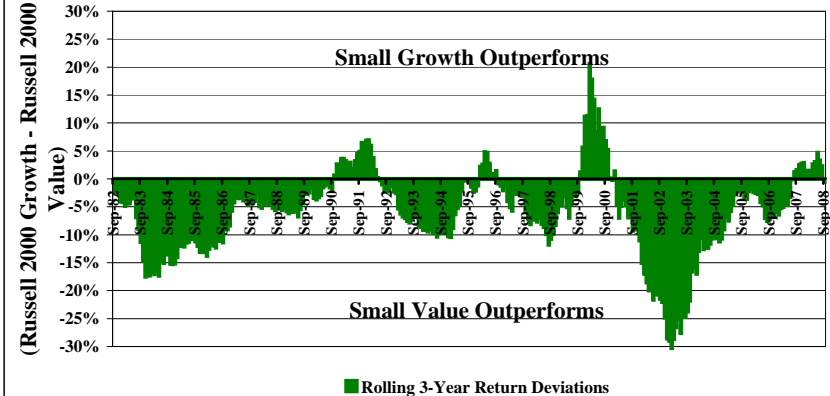
## Equity Themes

**Equity Style Cycle: Rolling Returns Analysis**



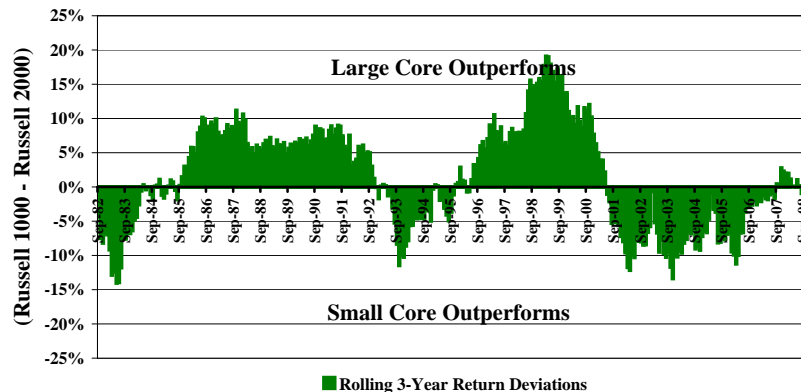
- Index Inception (i.e., January 1979): R1000V: **12.9%**; R1000G: **10.7%** (+215 bps)
- After 7 consecutive calendar years of outperformance by the R1000V relative to the R1000G, the R1000G was ahead of the R1000V on a trailing 1-year (+270 bps) and flat on a trailing 3-year basis. Recent volatility in the equity asset class has resulted in sharp growth vs. value reversals in monthly 3-year rolling returns.

**Equity Style Cycle: Rolling Returns Analysis**



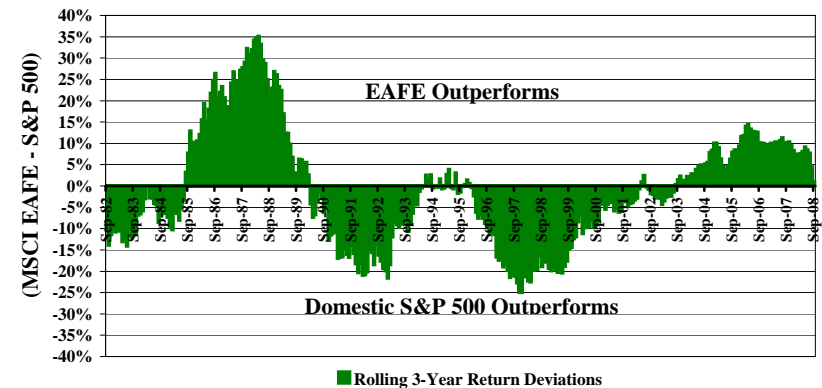
- Index Inception (i.e., January 1979): R2000V: **14.3%**; R2000G: **9.3%** (+498 bps)
- After experiencing an "inflection point," whereby the R2000G outperformed the R2000V on a rolling 3-year basis for 13 months, recent performance and volatile swings have prevented a long-term trend from emerging.

**Equity Market Cap Cycle: Rolling Returns Analysis**



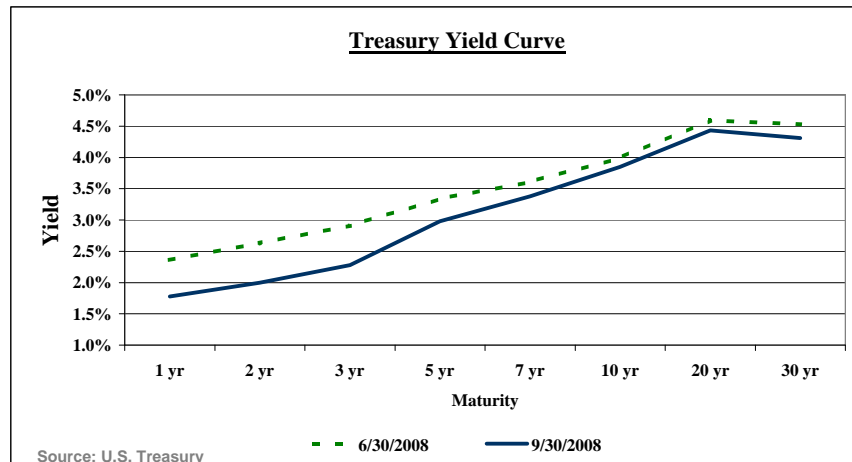
- Index Inception (i.e., January 1979): R1000: **12.0%**; R2000: **12.0%** (+01 bps)
- Similar to the "theme volatility" evidenced in the large and small growth vs. value equity themes, the same reversals are evident in the large vs. small capitalization theme. Over the long-term, there appears to be multiple short-term periods in which there are month by month reversals prior to the emergence of a long-term trend. These short-term periods tend to occur in and around recessions within the domestic economy.

**Equity Country Cycle: Rolling Returns Analysis**

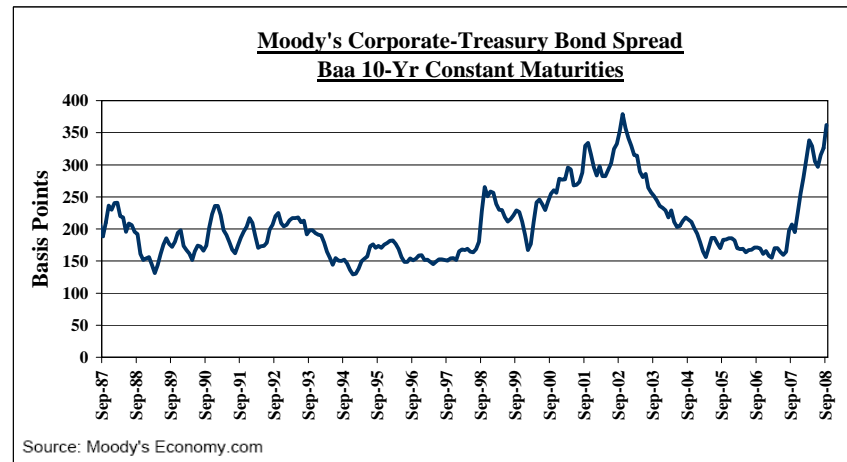


- Index Inception (i.e., January 1979): S&P 500: **12.5%**; EAFE: **10.7%** (+173 bps)
- The EAFE outperformed the S&P 500 in 7 of last 10 calendar years, including the last 6 in a row. For the trailing 1-year, the EAFE is behind of the S&P 500 by 854 bps.

## Fixed Income Themes



- Inflation concerns forced the Fed to maintain its target for the fed funds rate at 2% at both of its meetings, dated August 5 and September 16.
- Towards the end of Q3, trading in some sectors of the market virtually halted and Treasury yields flailed wildly day-to-day with the 2-year T-note yield ranging 73 bps (for September) from a high of 2.37% on September 1 to a low of 1.64% on September 17. Treasury yields ended Q3 14-98 bps lower as compared to Q2 with the largest declines within short-term issues.

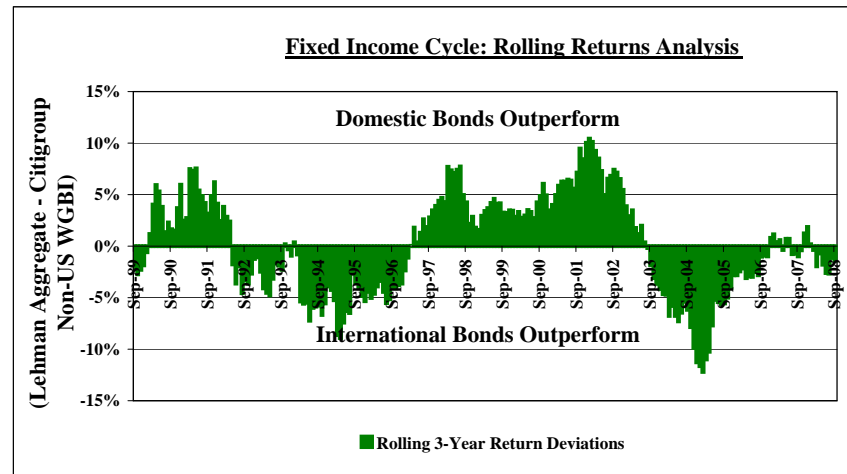


- Spreads widened during Q3 by 65 bps to 362 bps.
- Corporate defaults are on the rise, as corporate fundamentals continue to deteriorate. The Moody's twelve month speculative-grade default rate rose to 2.8% at the end of Q3 from 2.3% at the end of Q2.

<b>OAS and Excess Returns (in bps)</b>						
	<b><u>Option Adjusted Spreads</u></b>			<b><u>Excess Returns vs U.S. Treasuries</u></b>		
	<b>6/30/2008</b>	<b>8/31/2008</b>	<b>9/30/2008</b>	<b>September</b>	<b>3rd Quarter</b>	<b>YTD</b>
U.S. Aggregate Index	129	151	176	-190	-263	-383
U.S. Agency (non-mortgage) Sector	67	87	115	-49	-83	-147
Mortgage and ABS Sectors						
Mortgage-Backed Securities	127	147	135	26	-5	-29
Asset-Backed Securities	353	451	584	-325	-569	-1072
CMBS	288	362	480	-504	-809	-1306
Credit Sectors						
U.S. Investment Grade	238	271	385	-718	-884	-1169
Industrial	226	250	325	-448	-574	-838
Utility	232	252	335	-546	-642	-849
Financial Institutions	315	377	613	-1345	-1616	-2060
U.S. High Yield	708	794	1020	-855	-1111	-1488

Source: Lehman Brothers

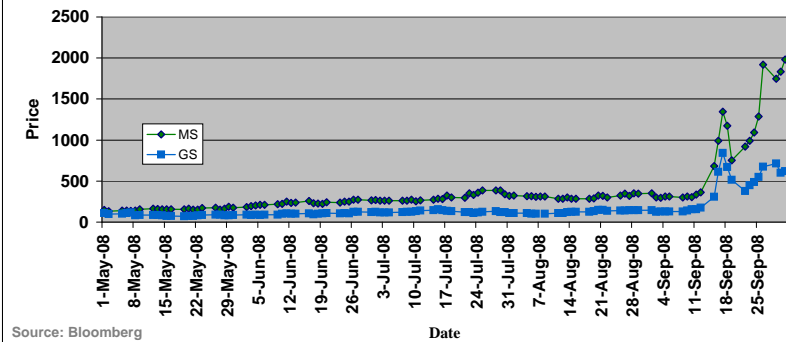
- Credit spreads exploded to new all-time highs in September. Yield spreads in the finance sector jumped 236 bps in September (613 bps vs. 377 bps in August) leading to 1,345 bps of underperformance compared to Treasuries for the month. Investment grade bonds lagged Treasuries by 718 bps on spread widening of 114 bps. The relative underperformance of several sectors for the month of September surpassed prior annual records on file. The MBS sector (all FNMA, FHLMC and GNMA guaranteed) was the lone sector that outperformed Treasuries (by 26 bps) on spread tightening of 12 bps (135 bps vs. 147 bps in August) for the month.



- International bonds underperformed domestic bonds during Q3 (-4.3% vs. -0.5%) for the second consecutive quarter.
- Despite outperforming international bonds during Q3, domestic bonds continue to trail international bonds across all annualized periods studied. In addition, international bonds outpaced domestic bonds by 1.5% and 1.4% over the 1- and 3-year rolling periods ended September 30.

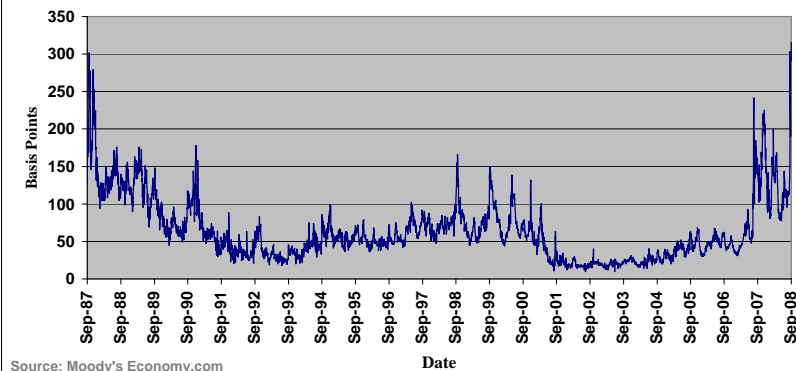
## Themes of the Third Quarter

**Morgan Stanley and Goldman Sachs 1 Year CDS Spread (May-Sept 2008)**



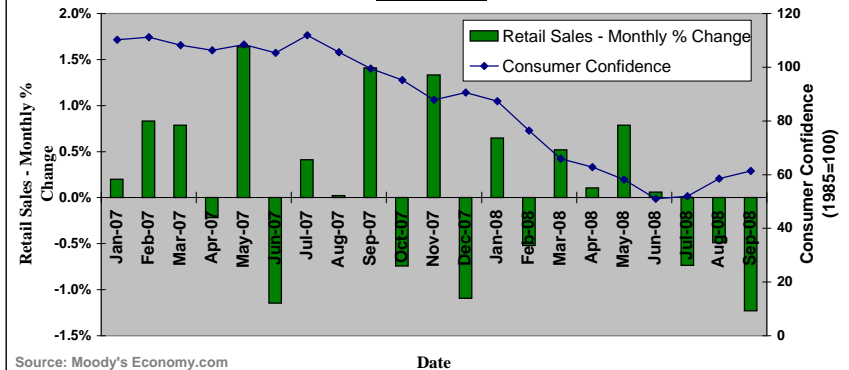
- The failure of Lehman Brothers and the rescue of AIG during Q3 2008 heightened concerns regarding counterparty risk, especially the possible risks associated with credit default swap contracts.
- Morgan Stanley and Goldman Sachs are notable examples of the significant CDS spread widening of financial institutions during Q3. The 1 Year CDS spreads for both of these institutions started to soar following the acquisition of Merrill Lynch by Bank of America and Lehman's bankruptcy. On September 21, both institutions filed to become commercial banks. While this alleviated concerns for a bit, uncertainty and risk aversion continued into October.

**TED spread - 3-Month US T-Bill vs. 3-Month LIBOR**



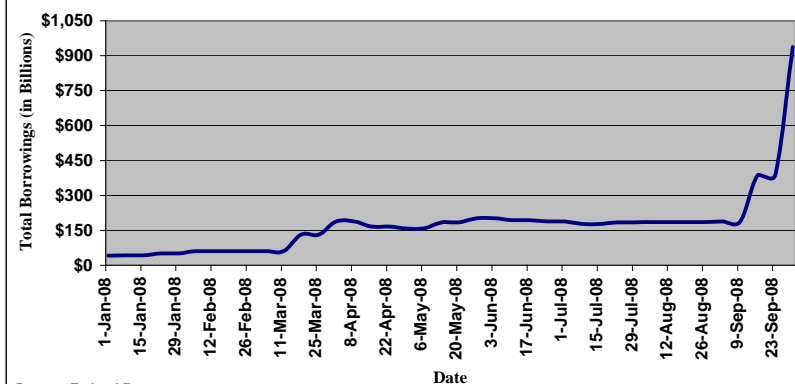
- Short-term credit markets have become "dysfunctional" as a lack of confidence among counterparties and insatiable demand for liquidity pushed lending rates higher. Restrictions within the availability of credit, caused by the lack of confidence, combined with higher borrowing costs, triggered additional strain on business and consumer balance sheets.
- During the span dating from April 2001 until August 2007, the TED Spread did not surpass 1.00%. After closing at 1.12%, on August 29, 2008, just one month before, the TED spread ended Q3 on September 30, 2008 at 3.15%, an all-time high, before surging over 100 bps higher in October.

**Retail Sales - Monthly % Change vs. Monthly Consumer Confidence**



- Retail sales fell by 1.2% in September, somewhat more than expected. Sales were negative for all three months of Q3 and six out of the last twelve months. The negative trend highlights that the \$106.7 billion in economic stimulus checks distributed between April and mid-July 2008 did not have a lasting effect on consumer spending.
- Consumer confidence inched up further in September from its 16-year low in June. However, because many of the responses were received before the recent financial market turmoil, the report will likely be subject to downward revision and the gains are unlikely to be sustained.

**Total Borrowings of Depository Institutions from the Fed**



- As the credit crisis intensified, financial institutions flocked to the Fed's various liquidity facilities.
- Borrowing from the Primary Dealer and other Broker Dealer Lending Facility went up from \$0 in August to \$140.9 billion at the end of Q3; borrowing from the Asset-backed Commercial Paper Money Market Fund Liquidity Facility, instituted during Q3, stood at \$140 billion; and Discount Window Credit of Depository Institutions ballooned from \$18.8 billion at the start of Q3 to \$394 billion at the end of Q3.
- The AIG loan had \$59.6 billion outstanding at the end of Q3, which was 70.1% of the total loan capacity.

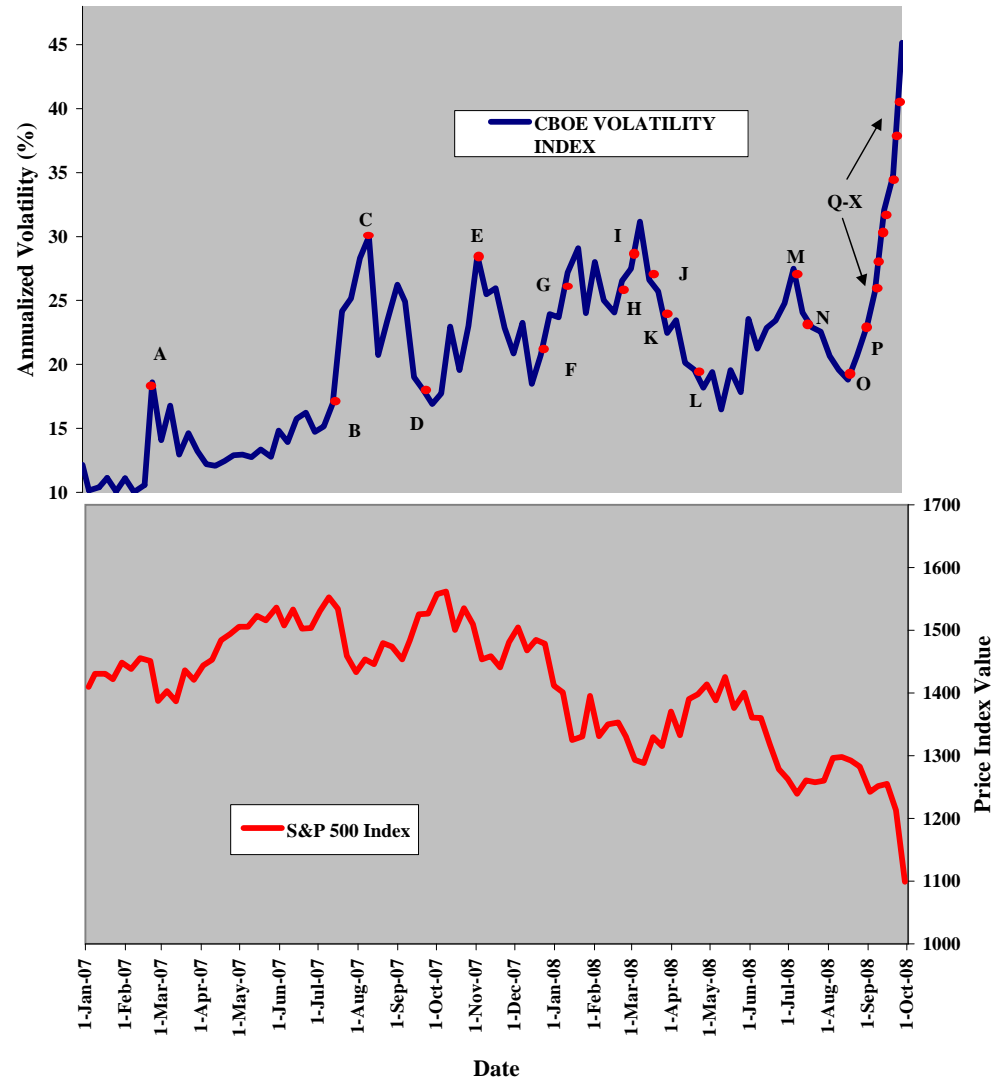
## Timeline of the Financial Crisis

### 2007

- A. February-March:** Subprime mortgage spreads widen due to defaults in the subprime space.
- B. July:** Investment-grade corporate spreads widen; SEC eliminates uptick rule.
- C. August:** Quant liquidity crunch.
- D. October 11:** Dow Jones Industrial Average hits record high of 14,279.96.
- E. November:** Bank write-downs due to subprime mortgages (over \$15 billion).

### 2008

- F. January:** Banks announce substantial Q4 2007 losses.
- G. January 11:** Bank of America pays \$4 billion for Countrywide Financial.
- H. January 22:** Fed cuts rates by  $\frac{3}{4}$  of a point, the biggest rate cut in nearly 24 years.
- I. February 13:** U.K. bank Northern Rock is nationalized.
- J. March:** Hedge funds Peloton Partners (U.K.) and Carlyle Capital (U.S.) fail.
- K. March 16:** Bear Stearns, U.S.'s fifth largest investment bank, collapses and is taken over by JPMorgan. Fed establishes lending facility.
- L. April-May:** Major credit losses and write downs continue.
- M. July:** Concerns over Fannie Mae and Freddie Mac collapsing; SEC bans naked shorting of 19 financial companies.
- N. July 22:** Washington Mutual reports \$3.3 billion loss for second quarter.
- O. August 31:** German Commerzbank AG takes over Dresdner Kleinwort investment bank.
- P. September 7:** Fannie Mae and Freddie Mac effectively nationalized by the U.S. Treasury, placing them into "conservatorship".
- Q. September 14-15:** Lehman Brothers files for bankruptcy, marking the largest bankruptcy in U.S. history. Bank of America agrees to buy Merrill Lynch. Central banks inject billions of dollars into money markets. American International Group (AIG) downgraded.
- R. September 16:** AIG share price falls due to news of valuation of subprime MBS. The U.S. Government agrees to provide an \$85 billion emergency loan to rescue insurer AIG. Barclays plc agrees to acquire portions of Lehman Brothers Holdings.
- S. September 17:** Halifax Bank of Scotland (HBOS) to merge with U.K. bank Lloyds TSB in an emergency rescue plan. Reserve Primary Fund (nation's oldest money market fund) falls below \$1 net asset value (NAV).
- T. September 18:** U.S. Federal Bank and other central banks inject hundreds of billions into global markets to help ease the crunch.
- U. September 19-21:** U.S. Treasury announces intention to sponsor a proposed \$700 billion "bailout" program designed to mitigate the financial crisis. Additional short selling bans implemented in Canada, Australia, and Taiwan. Goldman Sachs and Morgan Stanley become bank holding companies.
- V. September 23:** Warren Buffett's Berkshire Hathaway announces a \$5 billion investment in Goldman Sachs.
- W. September 25:** Washington Mutual fails after a \$16 billion loss in deposits, becoming the largest ever bank failure in the U.S.; JPMorgan announces plans to acquire Washington Mutual.
- X. September 29-30:** U.S. Congress rejects proposed \$700 billion plan to bail out the U.S. financial system. U.K.'s Bradford & Bingley nationalized. Santander to buy deposits for \$38.2 billion. German bank Hypo Real Estate Holdings AG fails. Citigroup, the world's largest bank, agrees to buy Wachovia. Belgian giant Fortis is bailed out by Netherlands, Belgium, and Luxembourg. Iceland part-nationalizes Glitnir, one of its 3 largest banks. Belgian Bank Dexia is bailed out by France, Belgium, and Luxembourg. Irish government guarantees safety of bonds, debts, and deposits.



### **Investment Manager Roster**

Investment Manager	Mandate	Benchmark	Inception Date
Principal Global Investors, LLC	Large Cap	S&P 500	12/31/1994
Principal Global Investors, LLC	International Core	MSCI Net EAFE	12/31/1994
Manning & Napier Advisors, Inc.	Small Cap	Russell 2000 Index	01/31/2008
Principal Global Investors, LLC	Fixed Income Core	Lehman Aggregate Bond Index	12/31/1994
Prudential Real Estate Investors	Real Estate	NCREIF National ODCE	03/31/2008

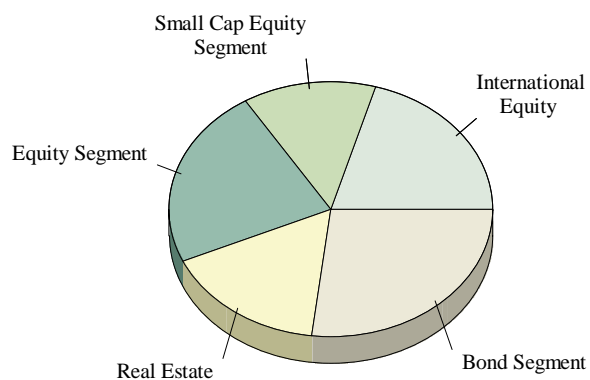
### **Asset Allocation Policy**

Asset Class	Minimum	Target	Maximum
<b>Domestic Equity</b>	<b>20%</b>	<b>25%</b>	<b>30%</b>
International Core	15%	20%	25%
Small Cap Core	10%	15%	20%
<b>Real Estate</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>
Fixed Income Core	20%	25%	30%



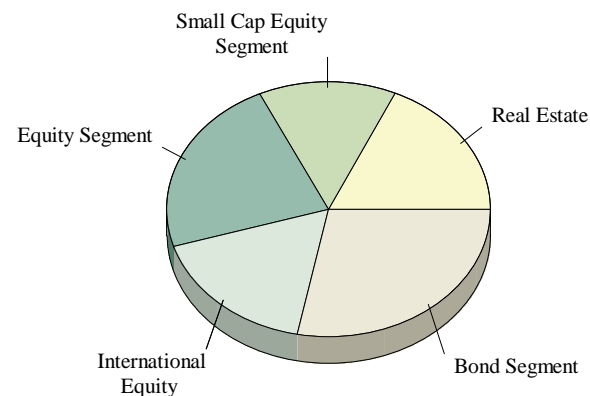
## COMPOSITE ASSET ALLOCATION

TOTAL MARKET VALUE  
AS OF JUNE 30, 2008  
\$58,628,061



	Value	Percent
Bond Segment	15,772,301	26.90
Equity Segment	13,363,521	22.79
International Equity	12,041,981	20.54
Real Estate	9,642,387	16.45
Small Cap Equity Segment	7,807,871	13.32

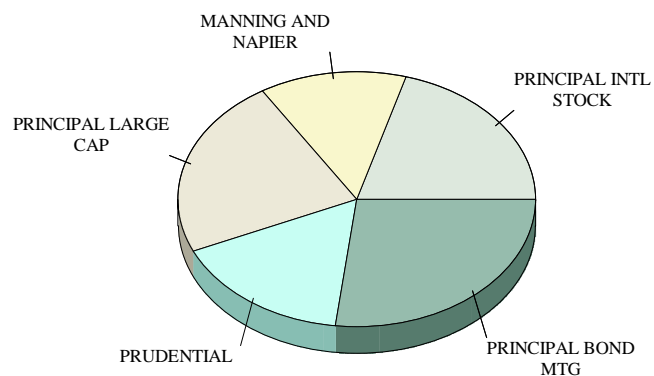
TOTAL MARKET VALUE  
AS OF SEPTEMBER 30, 2008  
\$52,914,201



	Value	Percent
Bond Segment	14,878,060	28.12
Equity Segment	12,026,685	22.73
Real Estate	9,658,219	18.25
International Equity	9,092,976	17.18
Small Cap Equity Segment	7,258,261	13.72

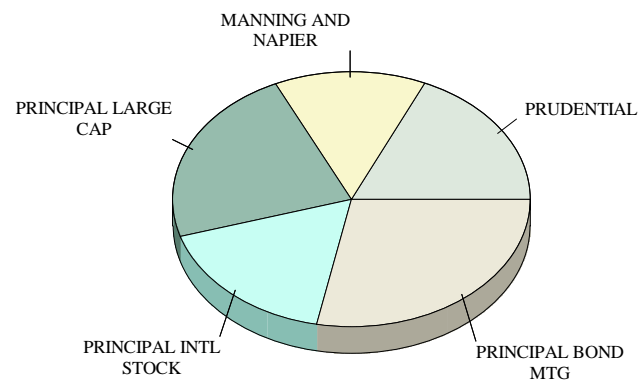
# COMPOSITE MANAGER ASSET ALLOCATION

TOTAL MARKET VALUE  
ON JUNE 30, 2008  
\$58,628,061



	Value	Percent
PRINCIPAL BOND MTG	15,772,301	26.90
PRINCIPAL LARGE CAP	13,363,521	22.79
PRINCIPAL INTL STOCK	12,041,981	20.54
PRUDENTIAL	9,642,387	16.45
MANNING AND NAPIER	7,807,871	13.32

TOTAL MARKET VALUE  
ON SEPTEMBER 30, 2008  
\$52,914,201



	Value	Percent
PRINCIPAL BOND MTG	14,878,060	28.12
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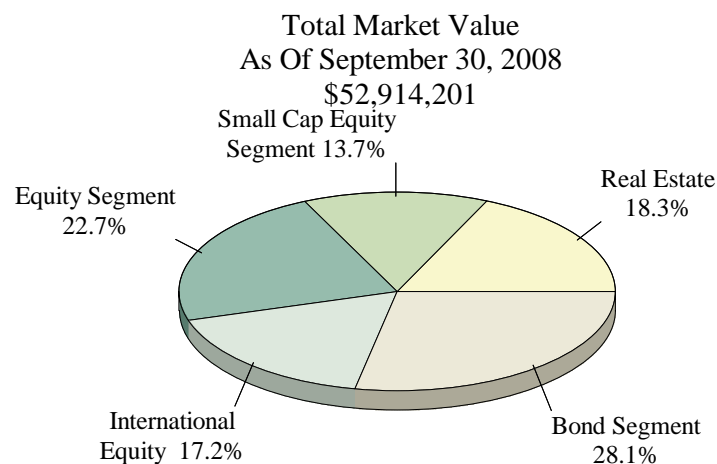
### Profile

COMPOSITE	
Benchmark:	POLICY INDEX
Inception Date:	December 31, 2001

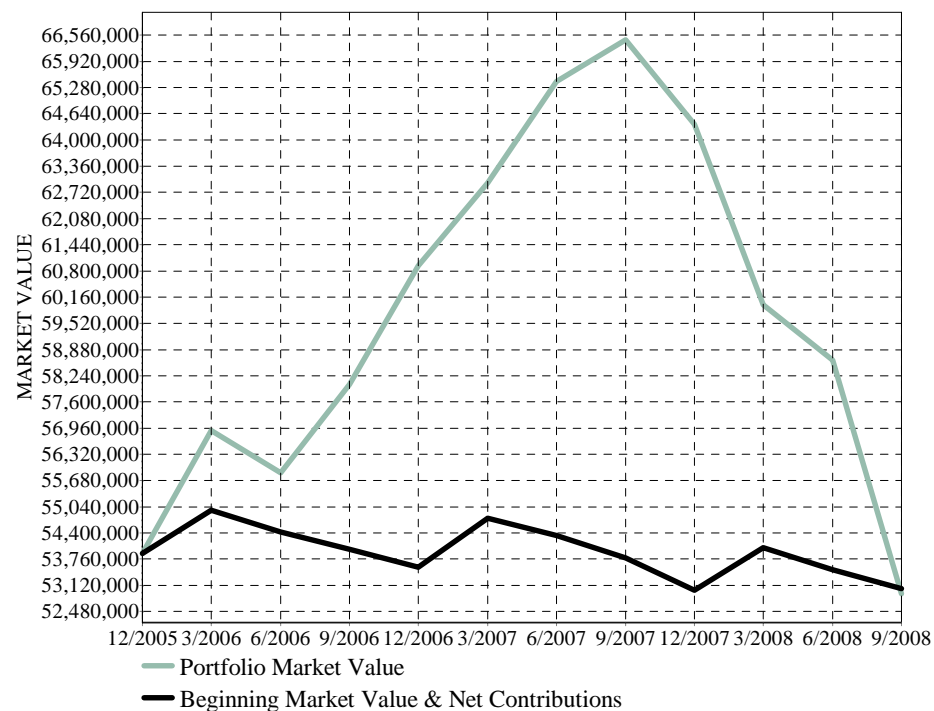
### Account Reconciliation

Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	58,628,061	64,380,522	53,896,652
Net Flows	-474,511	39,322	-864,996
Investment G/L	-5,239,349	-11,505,643	-117,455
Ending Value	52,914,201	52,914,201	52,914,201

### Asset Allocation



### Source Of Portfolio Growth

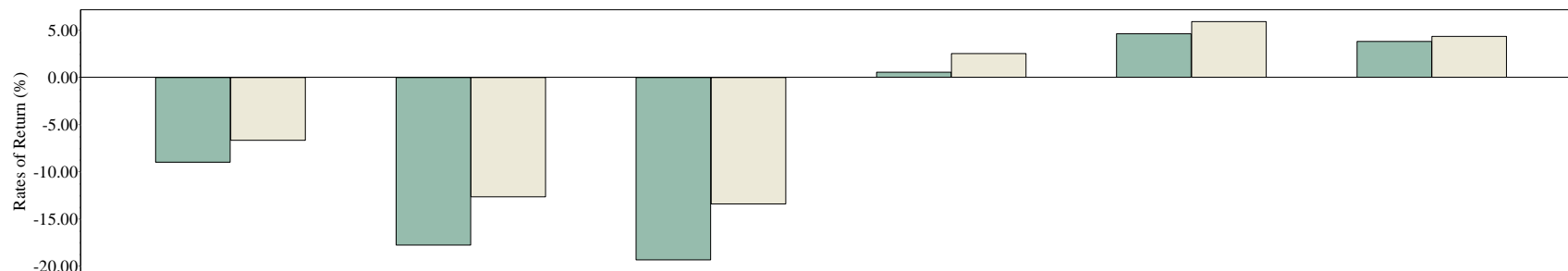


# COMPOSITE PERFORMANCE SUMMARY

	Qtr	Ytd	1 Yr	3 Yr	5 Yr	Incept	Market Value	% of Assets
<b>COMPOSITE</b>	-8.99	-17.81	-19.37	0.54	4.61	3.82	\$52,914,201	
POLICY INDEX	-6.72	-12.69	-13.45	2.52	5.90	4.32		
<b>PRINCIPAL LARGE CAP</b>	-8.37	-19.39	-22.15	-0.02	5.00	-	\$12,026,685	22.73%
S&P 500	-8.37	-19.29	-21.98	0.22	5.17	-		
Universe Median	-9.20	-18.57	-20.43	1.05	6.34	-		
Quartile Ranking	40	59	66	72	76	-		
<b>PRINCIPAL INTL STOCK</b>	-24.11	-30.59	-31.63	3.11	13.27	-	\$9,092,976	17.18%
MSCI NET EAFE	-20.56	-29.26	-30.50	1.12	9.69	-		
Universe Median	-21.86	-29.35	-30.34	3.06	11.30	-		
Quartile Ranking	66	59	58	49	30	-		
<b>MANNING AND NAPIER</b>	-7.04	-	-	-	-	-	\$7,258,261	13.72%
RUSSELL 2000	-1.11	-	-	-	-	-		
Universe Median	-6.67	-	-	-	-	-		
Quartile Ranking	51	-	-	-	-	-		
<b>PRINCIPAL BOND MTG</b>	-4.66	-6.73	-5.62	0.74	2.23	-	\$14,878,060	28.12%
LB AGGREGATE BOND	-0.48	0.64	3.66	4.15	3.79	-		
Universe Median	-1.11	0.33	3.18	4.09	3.67	-		
Quartile Ranking	98	99	99	99	99	-		
<b>PRUDENTIAL</b>	0.40	-	-	-	-	-	\$9,658,219	18.25%
NCREIF ODCE INDEX	-0.52	-	-	-	-	-		
Universe Median	-	-	-	-	-	-		
Quartile Ranking	-	-	-	-	-	-		

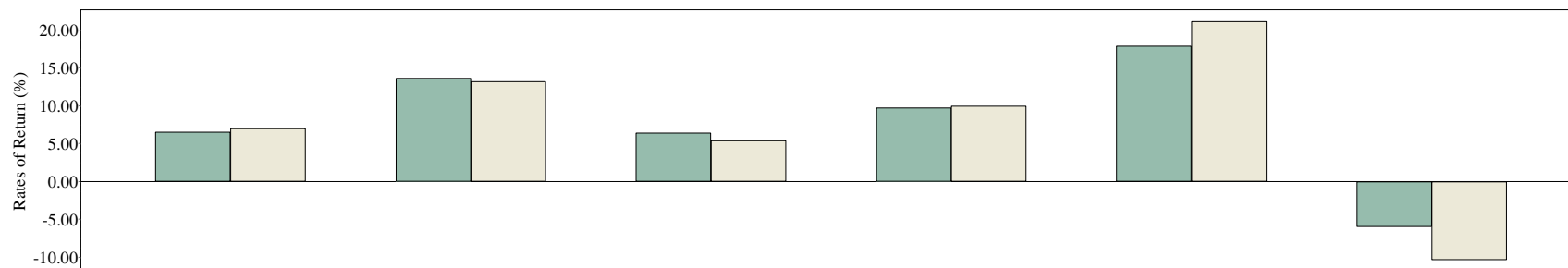
**COMPOSITE - TOTAL FUND**  
**12/2001 Through 9/2008**

**Trailing Returns**



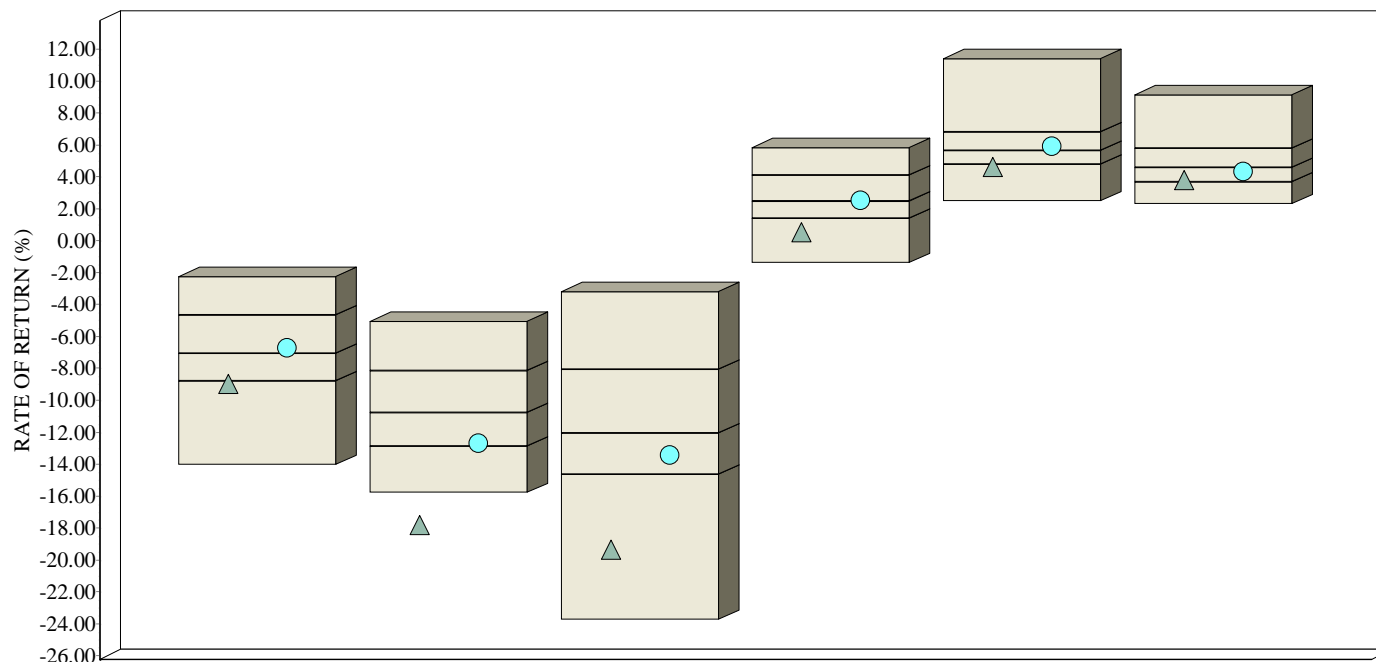
	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	Since Inception
TOTAL FUND	-8.99	-17.81	-19.37	0.54	4.61	3.82
POLICY INDEX	-6.72	-12.69	-13.45	2.52	5.90	4.32
Difference	-2.27	-5.12	-5.92	-1.97	-1.29	-0.50

**Calendar Year Returns**



	2007	2006	2005	2004	2003	2002
TOTAL FUND	6.52	13.65	6.43	9.71	17.89	-6.01
POLICY INDEX	6.99	13.20	5.40	9.97	21.12	-10.38
Difference	-0.47	0.45	1.04	-0.26	-3.22	4.37

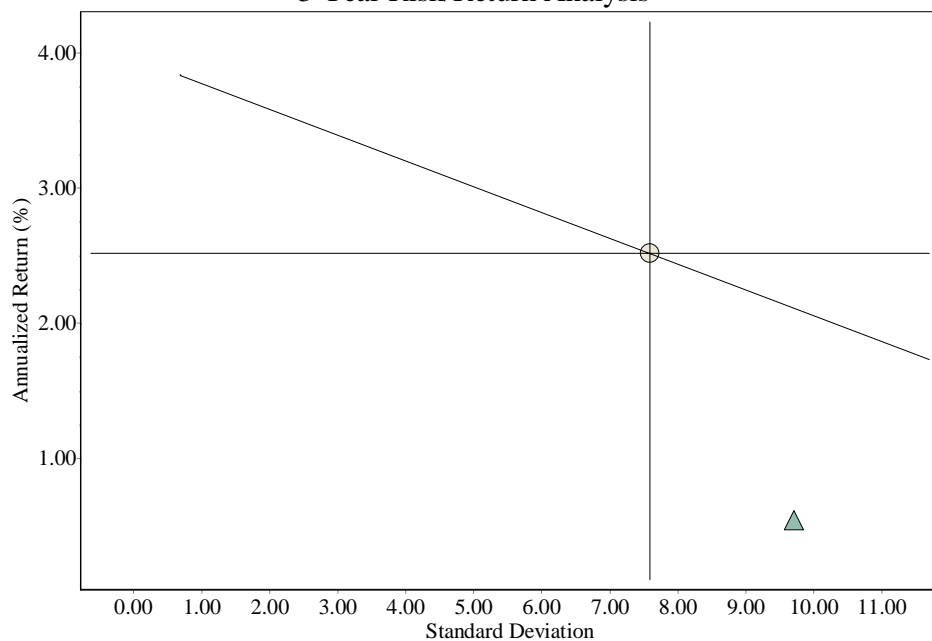
# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST BALANCED MANAGERS



	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
HIGHEST VALUE	-2.26		-5.06		-3.20		5.82		11.41		9.11	
FIRST QUARTILE	-4.65		-8.13		-8.09		4.08		6.83		5.77	
MEDIAN VALUE	-7.06		-10.75		-12.04		2.48		5.63		4.58	
THIRD QUARTILE	-8.80		-12.87		-14.64		1.41		4.79		3.66	
LOWEST VALUE	-14.05		-15.79		-23.76		-1.40		2.47		2.30	
MEAN	-7.30		-10.73		-11.78		2.53		5.93		4.74	
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ COMPOSITE	-8.99	76	-17.81	99	-19.37	94	0.54	91	4.61	79	3.82	70
● POLICY INDEX	-6.72	47	-12.69	68	-13.45	62	2.52	47	5.90	43	4.32	60

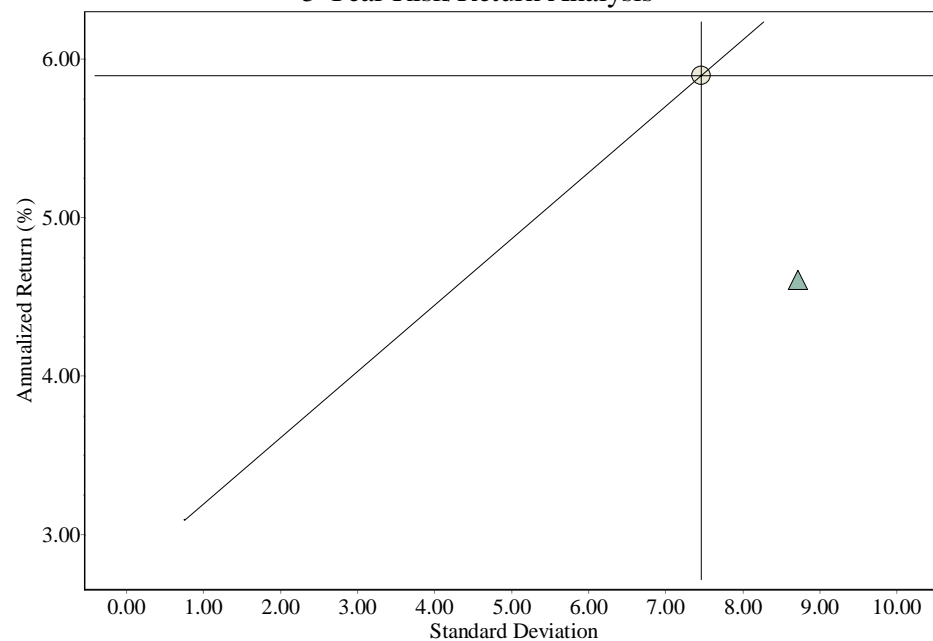
# COMPOSITE RETURN VS RISK

3 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ COMPOSITE	0.54	9.71	-1.47	1.29	98.74
● POLICY INDEX	2.52	7.59	0.00	1.00	100.00

5 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ COMPOSITE	4.61	8.72	-1.57	1.14	96.67
● POLICY INDEX	5.90	7.47	0.00	1.00	100.00

**COMPOSITE  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	0.28
Jun 2002	N/A	0	41,225,900	41,225,900	-3.50
Sep 2002	41,225,900	0	-3,800,429	37,425,471	-7.84
Dec 2002	37,425,471	0	1,808,362	39,233,833	5.39
Mar 2003	39,233,833	0	-185,531	39,048,302	-1.93
Jun 2003	39,048,302	0	3,648,601	42,696,903	10.03
Sep 2003	42,696,903	0	289,805	42,986,708	1.36
Dec 2003	42,986,708	0	3,093,328	46,080,036	7.79
Mar 2004	46,080,036	0	2,258,325	48,338,361	2.56
Jun 2004	48,338,361	0	-352,977	47,985,384	-0.23
Sep 2004	47,985,384	0	-166,674	47,818,710	0.45
Dec 2004	47,818,710	0	3,057,601	50,876,311	6.74
Mar 2005	50,876,311	0	487,401	51,363,712	-1.31
Jun 2005	51,363,712	0	443,603	51,807,315	1.99
Sep 2005	51,807,315	0	1,424,511	53,231,826	3.53
Dec 2005	53,231,826	-398,198	1,063,024	53,896,652	2.14
Mar 2006	53,896,652	1,065,642	1,939,241	56,901,535	3.59
Jun 2006	56,901,535	-531,862	-499,858	55,869,815	-0.88
Sep 2006	55,869,815	-424,358	2,576,336	58,021,793	4.64
Dec 2006	58,021,793	-433,628	3,340,857	60,929,022	5.79
Mar 2007	60,929,022	1,188,243	828,248	62,945,513	1.36
Jun 2007	62,945,513	-424,423	2,911,209	65,432,299	4.65
Sep 2007	65,432,299	-537,907	1,549,901	66,444,293	2.38
Dec 2007	66,444,293	-806,025	-1,257,746	64,380,522	-1.90
Mar 2008	64,380,522	1,056,887	-5,459,360	59,978,049	-8.45
Jun 2008	59,978,049	-543,054	-806,934	58,628,061	-1.35
Sep 2008	58,628,061	-474,511	-5,239,349	52,914,201	-8.99

**COMPOSITE  
QUARTERLY ASSET ALLOCATION (%)**

	BOND	EQUITY	INTERNATIONAL EQUITY	SMALL CAP EQ	REAL ESTATE
Period Ending	Actual Weight	Actual Weight	Actual Weight	Actual Weight	Actual Weight
03/31/2007	28.39	55.90	15.71	N/A	N/A
06/30/2007	26.29	57.23	16.48	N/A	N/A
09/30/2007	25.87	57.20	16.93	N/A	N/A
12/31/2007	26.56	56.41	17.02	N/A	N/A
03/31/2008	26.96	23.14	19.83	14.07	16.01
06/30/2008	26.90	22.79	20.54	13.32	16.45
09/30/2008	28.12	22.73	17.18	13.72	18.25





### Profile

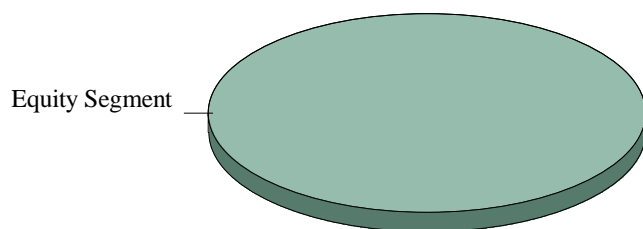
PRINCIPAL LARGE CAP STOCK INDEX	
Style:	Large Cap
Benchmark:	S&P 500
Universe:	Large Cap Managers
Inception Date:	December 31, 1994

### Account Reconciliation

Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	13,363,521	36,319,483	28,505,988
Net Flows	-232,539	-19,949,341	-18,476,653
Investment G/L	-1,104,297	-4,343,457	1,997,350
Ending Value	12,026,685	12,026,685	12,026,685

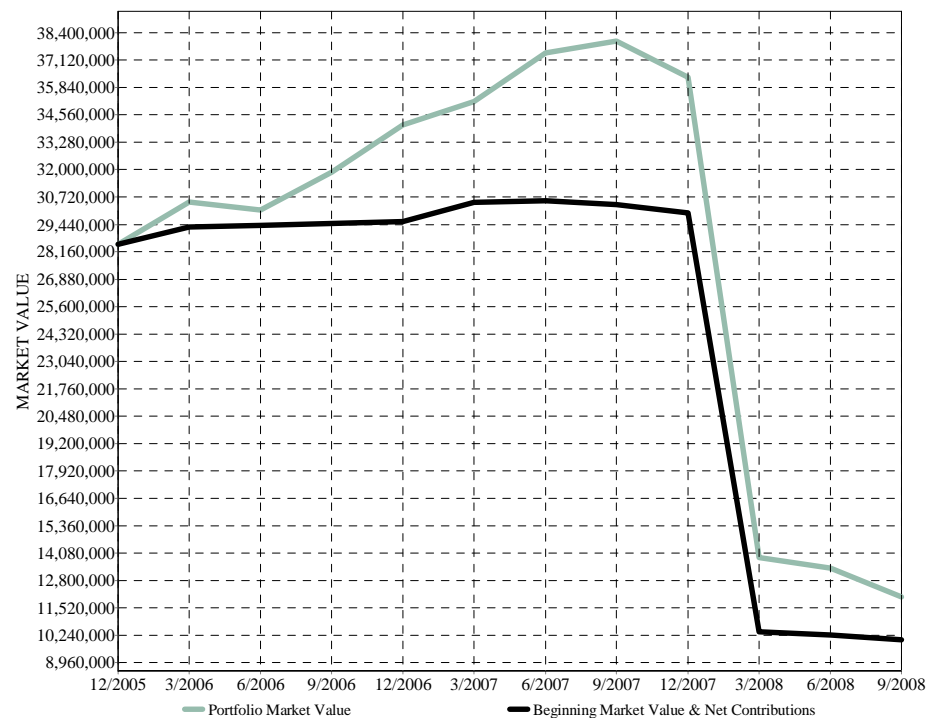
### Asset Allocation

Total Market Value  
As Of September 30, 2008  
\$12,026,685



S&P 500: 100% S&P 500

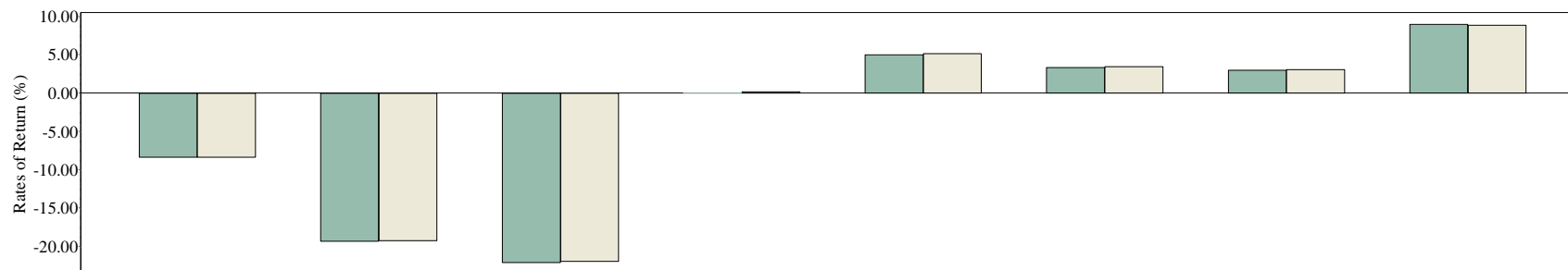
### Source Of Portfolio Growth



## PRINCIPAL LARGE CAP STOCK INDEX - TOTAL FUND

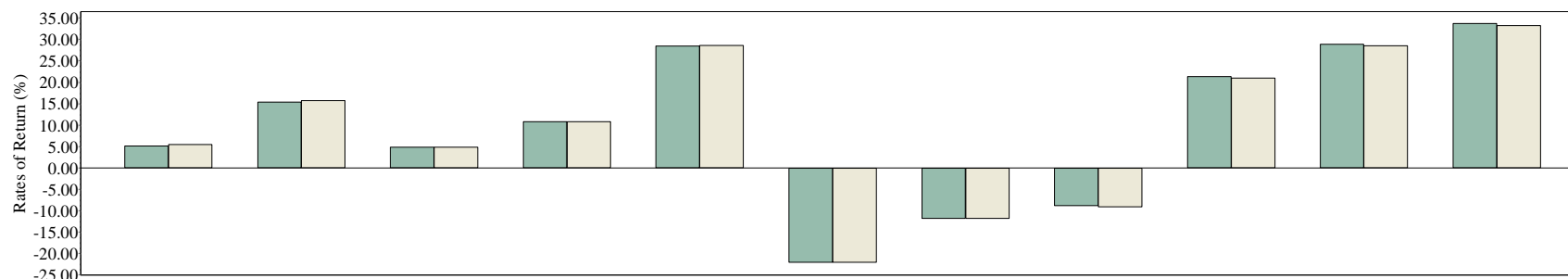
### 12/1994 Through 9/2008

### Trailing Returns



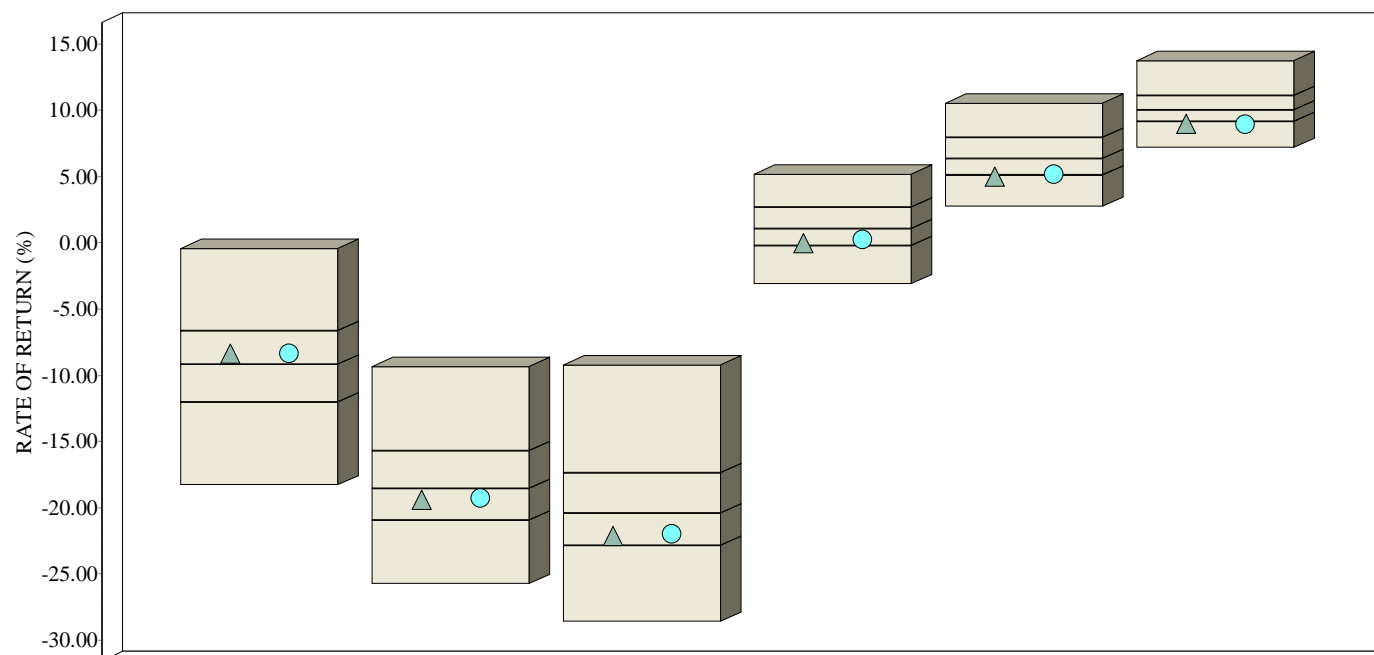
	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception
TOTAL FUND	-8.37	-19.39	-22.15	-0.02	5.00	3.38	3.04	8.97
S&P 500	-8.37	-19.29	-21.98	0.22	5.17	3.50	3.06	8.91
Difference	0.00	-0.10	-0.17	-0.24	-0.17	-0.12	-0.02	0.07

### Calendar Year Returns



	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
TOTAL FUND	5.21	15.44	4.92	10.83	28.53	-22.12	-11.90	-8.83	21.41	28.98	33.74
S&P 500	5.49	15.80	4.90	10.87	28.69	-22.11	-11.88	-9.11	21.04	28.58	33.36
Difference	-0.29	-0.36	0.02	-0.04	-0.17	-0.01	-0.02	0.27	0.37	0.39	0.38

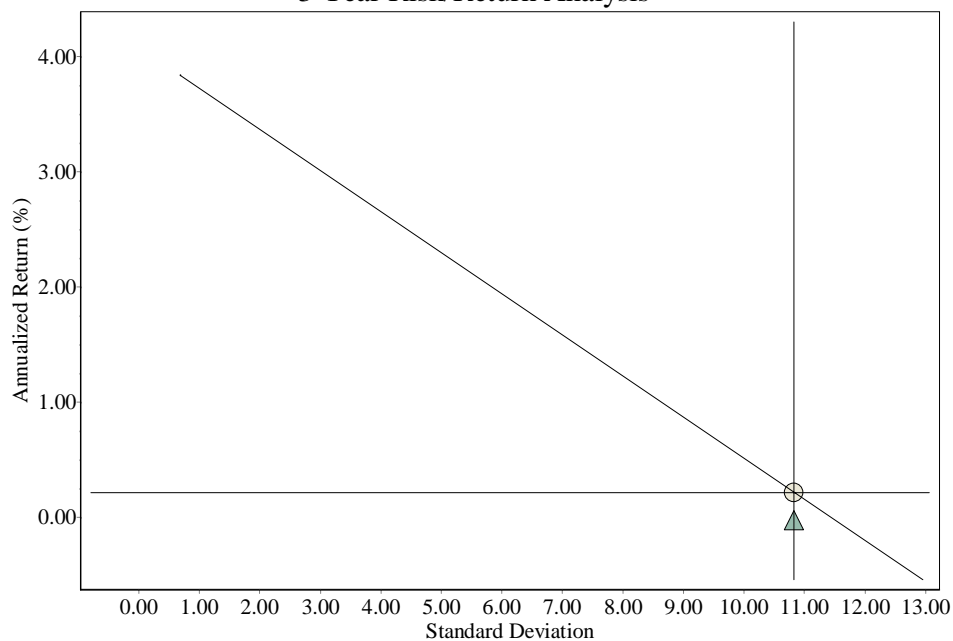
# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST LARGE CAP MANAGERS



		LATEST QUARTER		YEAR-TO- DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
<div><div></div><div></div><div></div><div></div><div></div></div>	HIGHEST VALUE	-0.46		-9.35		-9.22		5.15		10.54		13.75	
	FIRST QUARTILE	-6.66		-15.70		-17.36		2.64		7.95		11.11	
	MEDIAN VALUE	-9.20		-18.57		-20.43		1.05		6.34		10.03	
	THIRD QUARTILE	-12.06		-20.93		-22.89		-0.22		5.07		9.15	
	LOWEST VALUE	-18.33		-25.77		-28.61		-3.15		2.69		7.16	
MEAN		-9.33		-18.25		-19.96		1.18		6.51		10.23	
		LATEST QUARTER		YEAR-TO- DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
		RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL LARGE CAP		-8.37	40	-19.39	59	-22.15	66	-0.02	72	5.00	76	8.97	80
● S&P 500		-8.37	40	-19.29	58	-21.98	65	0.22	67	5.17	73	8.91	84

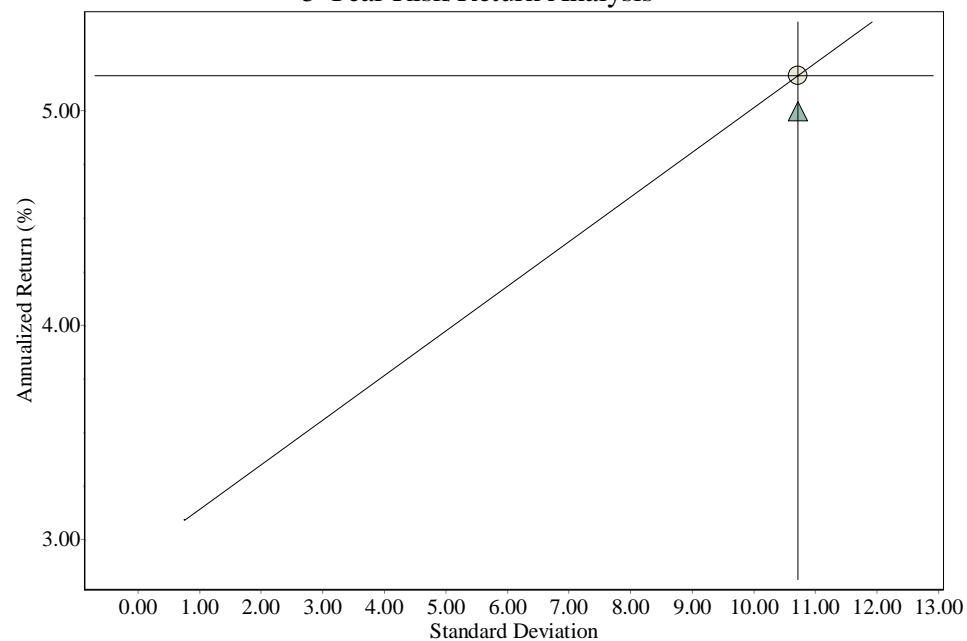
# PRINCIPAL LARGE CAP STOCK INDEX RETURN VS RISK

3 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL LARGE CAP	-0.02	10.82	-0.24	1.00	99.99
○ S&P 500	0.22	10.83	0.00	1.00	100.00

5 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL LARGE CAP	5.00	10.71	-0.16	1.00	99.99
○ S&P 500	5.17	10.72	0.00	1.00	100.00

**PRINCIPAL LARGE CAP STOCK INDEX  
 TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 1995	N/A	0	0	N/A	9.80
Jun 1995	N/A	0	0	N/A	9.62
Sep 1995	N/A	0	0	N/A	8.01
Dec 1995	N/A	0	0	N/A	6.11
Mar 1996	N/A	0	0	N/A	5.40
Jun 1996	N/A	0	0	N/A	4.58
Sep 1996	N/A	0	0	N/A	3.17
Dec 1996	N/A	0	0	N/A	8.42
Mar 1997	N/A	0	0	N/A	2.77
Jun 1997	N/A	0	0	N/A	17.49
Sep 1997	N/A	0	0	N/A	7.58
Dec 1997	N/A	0	0	N/A	2.96
Mar 1998	N/A	0	0	N/A	14.01
Jun 1998	N/A	0	0	N/A	3.37
Sep 1998	N/A	0	0	N/A	-9.83
Dec 1998	N/A	0	0	N/A	21.37
Mar 1999	N/A	0	0	N/A	5.04
Jun 1999	N/A	0	0	N/A	7.12
Sep 1999	N/A	0	0	N/A	-6.15
Dec 1999	N/A	0	0	N/A	14.97
Mar 2000	N/A	0	0	N/A	2.34
Jun 2000	N/A	0	0	N/A	-2.58
Sep 2000	N/A	0	0	N/A	-0.92
Dec 2000	N/A	0	0	N/A	-7.71
Mar 2001	N/A	0	0	N/A	-11.90
Jun 2001	N/A	0	0	N/A	5.73
Sep 2001	N/A	0	0	N/A	-14.59
Dec 2001	N/A	0	0	N/A	10.74

**PRINCIPAL LARGE CAP STOCK INDEX  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	0.25
Jun 2002	N/A	0	17,215,641	17,215,641	-13.39
Sep 2002	17,215,641	0	-2,935,912	14,279,729	-17.27
Dec 2002	14,279,729	0	1,282,740	15,562,469	8.42
Mar 2003	15,562,469	0	451,032	16,013,501	-3.16
Jun 2003	16,013,501	0	3,236,286	19,249,787	15.36
Sep 2003	19,249,787	0	551,812	19,801,599	2.63
Dec 2003	19,801,599	0	2,464,558	22,266,157	12.10
Mar 2004	22,266,157	0	1,625,488	23,891,645	1.67
Jun 2004	23,891,645	0	482,564	24,374,209	1.72
Sep 2004	24,374,209	0	-410,246	23,963,963	-1.87
Dec 2004	23,963,963	0	2,293,569	26,257,532	9.21
Mar 2005	26,257,532	0	162,832	26,420,364	-2.12
Jun 2005	26,420,364	84,114	341,273	26,845,751	1.37
Sep 2005	26,845,751	85,603	943,077	27,874,431	3.59
Dec 2005	27,874,431	74,278	557,279	28,505,988	2.08
Mar 2006	28,505,988	820,773	1,174,698	30,501,459	4.11
Jun 2006	30,501,459	73,642	-458,574	30,116,527	-1.50
Sep 2006	30,116,527	86,022	1,688,372	31,890,921	5.60
Dec 2006	31,890,921	85,113	2,107,350	34,083,384	6.60
Mar 2007	34,083,384	892,278	208,451	35,184,113	0.61
Jun 2007	35,184,113	77,971	2,183,321	37,445,405	6.20
Sep 2007	37,445,405	-170,279	732,365	38,007,491	1.96
Dec 2007	38,007,491	-392,832	-1,295,176	36,319,483	-3.43
Mar 2008	36,319,483	-19,570,012	-2,871,966	13,877,505	-9.62
Jun 2008	13,877,505	-146,790	-367,194	13,363,521	-2.66
Sep 2008	13,363,521	-232,539	-1,104,297	12,026,685	-8.37

**PRINCIPAL LARGE CAP STOCK INDEX  
 QUARTERLY ASSET ALLOCATION (%)**

**EQUITY**

Period Ending	Actual Weight
03/31/2006	100.00
06/30/2006	100.00
09/30/2006	100.00
12/31/2006	100.00
03/31/2007	100.00
06/30/2007	100.00
09/30/2007	100.00
12/31/2007	100.00
03/31/2008	100.00
06/30/2008	100.00
09/30/2008	100.00





### Profile

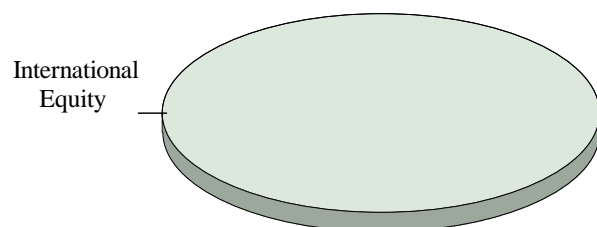
PRINCIPAL INTERNATIONAL STOCK	
Style:	Foreign Equity
Benchmark:	MSCI NET EAFE
Universe:	Foreign Equity Managers
Inception Date:	December 31, 1994

### Account Reconciliation

Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	12,041,981	10,960,165	7,130,692
Net Flows	-54,555	1,956,716	2,193,620
Investment G/L	-2,894,450	-3,823,905	-231,336
Ending Value	9,092,976	9,092,976	9,092,976

### Asset Allocation

Total Market Value  
As Of September 30, 2008  
\$9,092,976



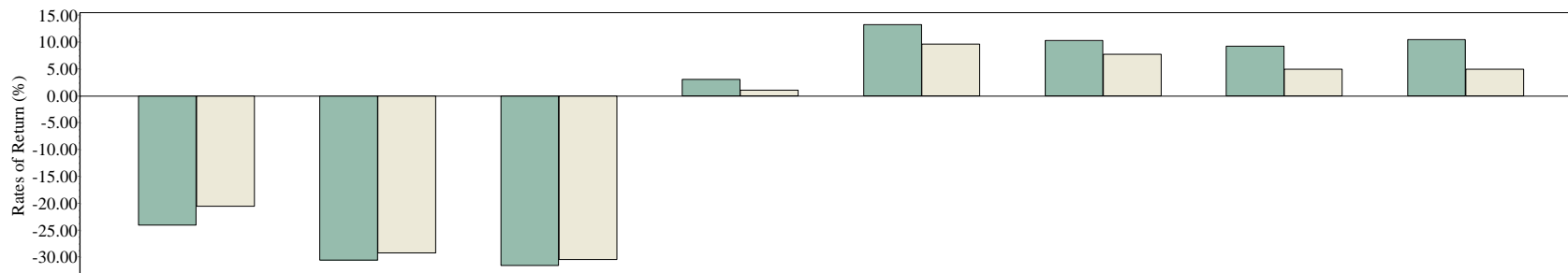
### Source Of Portfolio Growth



## PRINCIPAL INTERNATIONAL STOCK - TOTAL FUND

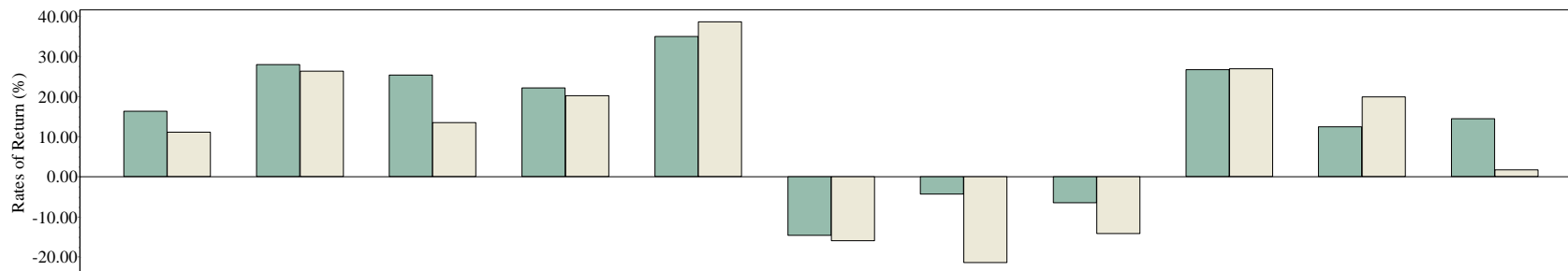
### 12/1994 Through 9/2008

### Trailing Returns



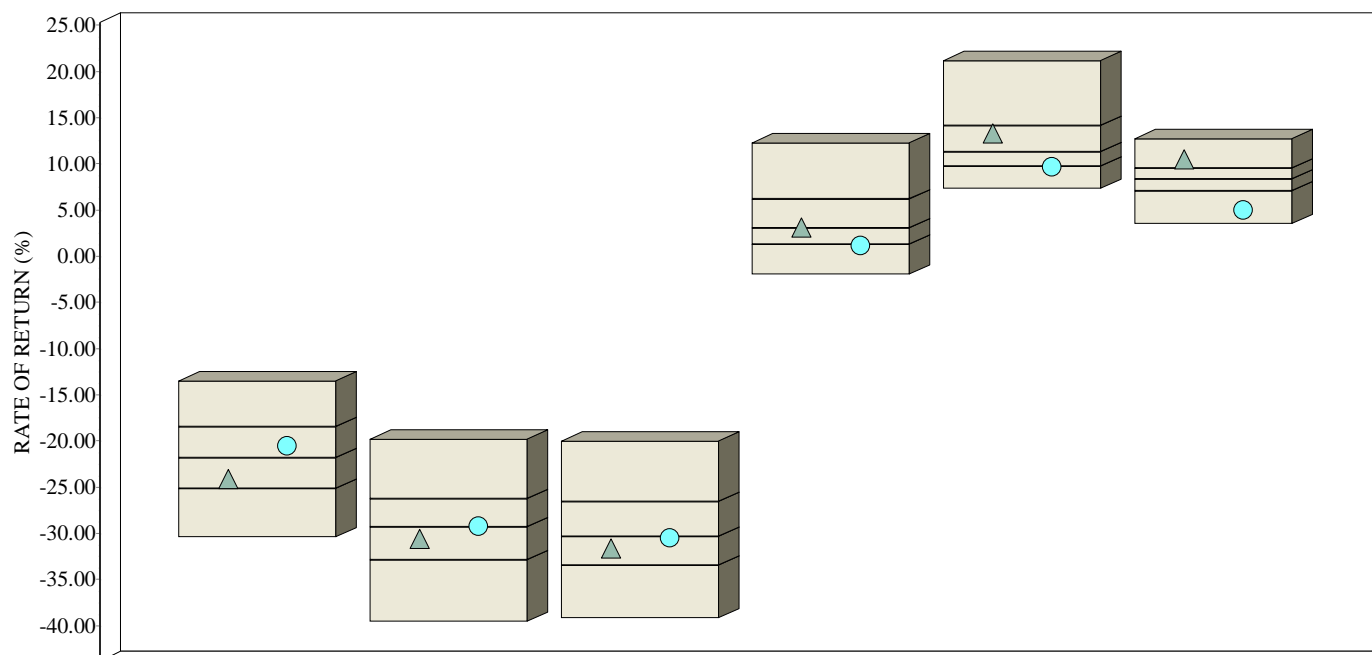
	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception
TOTAL FUND	-24.11	-30.59	-31.63	3.11	13.27	10.39	9.32	10.47
MSCI NET EAFE	-20.56	-29.26	-30.50	1.12	9.69	7.79	5.02	4.97
Difference	-3.55	-1.33	-1.13	1.99	3.58	2.60	4.30	5.50

### Calendar Year Returns



	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
TOTAL FUND	16.43	27.96	25.37	22.19	34.99	-14.65	-4.33	-6.45	26.78	12.46	14.49
MSCI NET EAFE	11.17	26.34	13.54	20.24	38.60	-15.94	-21.44	-14.16	26.97	19.99	1.77
Difference	5.26	1.62	11.84	1.95	-3.61	1.29	17.10	7.71	-0.20	-7.53	12.72

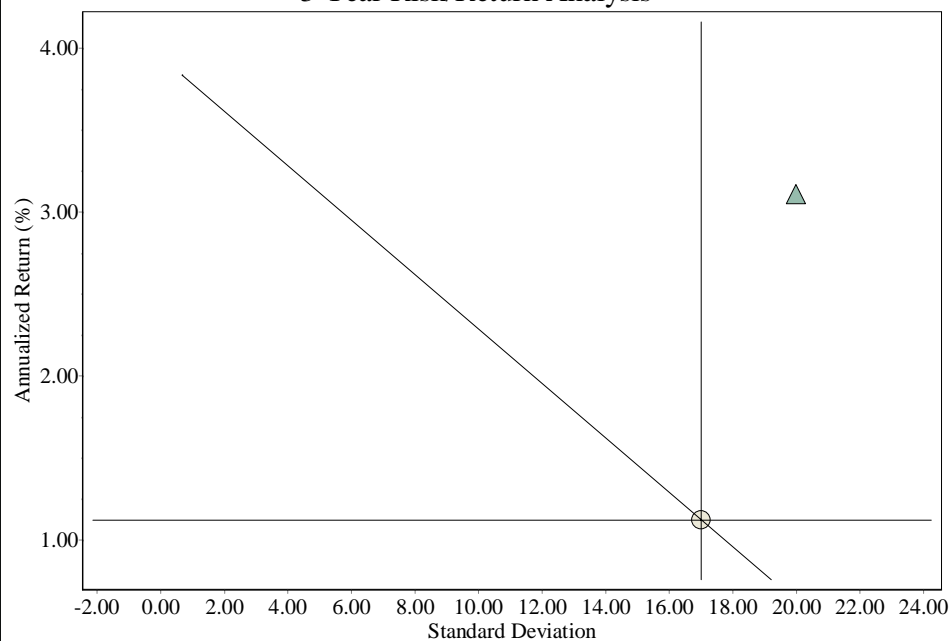
# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST FOREIGN EQUITY MANAGERS



	LATEST QUARTER		YEAR-TO- DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
HIGHEST VALUE		-13.49		-19.85		-20.06		12.27		21.17		12.69
FIRST QUARTILE		-18.45		-26.25		-26.57		6.18		14.11		9.54
MEDIAN VALUE		-21.86		-29.35		-30.34		3.06		11.30		8.36
THIRD QUARTILE		-25.16		-32.90		-33.47		1.28		9.74		7.03
LOWEST VALUE		-30.42		-39.58		-39.21		-2.01		7.30		3.53
MEAN		-21.79		-29.56		-30.17		3.71		12.30		8.37
	LATEST QUARTER		YEAR-TO- DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL INTL STOCK	-24.11	66	-30.59	59	-31.63	58	3.11	49	13.27	30	10.47	13
● MSCI NET EAFE	-20.56	41	-29.26	49	-30.50	51	1.12	75	9.69	76	4.97	97

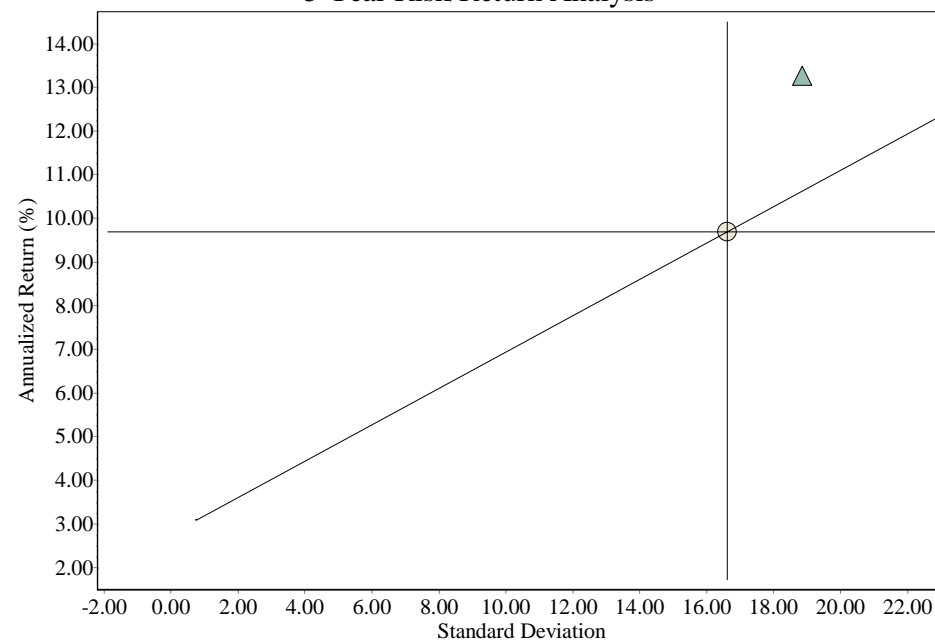
# PRINCIPAL INTERNATIONAL STOCK RETURN VS RISK

3 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL INTL STOCK	3.11	19.99	2.74	1.17	97.11
○ MSCI NET EAFE	1.12	17.01	0.00	1.00	100.00

5 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL INTL STOCK	13.27	18.85	2.85	1.11	96.31
○ MSCI NET EAFE	9.69	16.62	0.00	1.00	100.00

**PRINCIPAL INTERNATIONAL STOCK  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 1995	N/A	0	0	N/A	-0.66
Jun 1995	N/A	0	0	N/A	9.50
Sep 1995	N/A	0	0	N/A	5.14
Dec 1995	N/A	0	0	N/A	1.88
Mar 1996	N/A	0	0	N/A	8.60
Jun 1996	N/A	0	0	N/A	4.19
Sep 1996	N/A	0	0	N/A	3.20
Dec 1996	N/A	0	0	N/A	8.40
Mar 1997	N/A	0	0	N/A	3.66
Jun 1997	N/A	0	0	N/A	10.83
Sep 1997	N/A	0	0	N/A	5.70
Dec 1997	N/A	0	0	N/A	-5.72
Mar 1998	N/A	0	0	N/A	15.53
Jun 1998	N/A	0	0	N/A	-0.26
Sep 1998	N/A	0	0	N/A	-17.09
Dec 1998	N/A	0	0	N/A	17.71
Mar 1999	N/A	0	0	N/A	3.22
Jun 1999	N/A	0	0	N/A	2.95
Sep 1999	N/A	0	0	N/A	2.66
Dec 1999	N/A	0	0	N/A	16.21
Mar 2000	N/A	0	0	N/A	3.60
Jun 2000	N/A	0	0	N/A	-1.33
Sep 2000	N/A	0	0	N/A	-9.24
Dec 2000	N/A	0	0	N/A	0.83
Mar 2001	N/A	0	0	N/A	3.60
Jun 2001	N/A	0	0	N/A	-0.75
Sep 2001	N/A	0	0	N/A	-15.01
Dec 2001	N/A	0	0	N/A	9.47

**PRINCIPAL INTERNATIONAL STOCK  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	-0.48
Jun 2002	N/A	0	3,793,548	3,793,548	-1.43
Sep 2002	3,793,548	0	-691,999	3,101,549	-18.28
Dec 2002	3,101,549	0	213,601	3,315,150	6.47
Mar 2003	3,315,150	0	-257,809	3,057,341	-7.88
Jun 2003	3,057,341	0	554,222	3,611,563	17.86
Sep 2003	3,611,563	0	207,171	3,818,734	5.62
Dec 2003	3,818,734	0	685,629	4,504,363	17.72
Mar 2004	4,504,363	0	219,287	4,723,650	4.24
Jun 2004	4,723,650	0	-30,296	4,693,354	-0.77
Sep 2004	4,693,354	0	89,461	4,782,815	1.89
Dec 2004	4,782,815	0	771,942	5,554,757	15.94
Mar 2005	5,554,757	0	180,760	5,735,517	0.90
Jun 2005	5,735,517	16,823	78,107	5,830,447	1.62
Sep 2005	5,830,447	17,120	880,512	6,728,079	15.34
Dec 2005	6,728,079	14,856	387,757	7,130,692	6.01
Mar 2006	7,130,692	164,155	852,303	8,147,150	11.91
Jun 2006	8,147,150	14,729	-6,802	8,155,077	-0.08
Sep 2006	8,155,077	17,204	214,408	8,386,689	2.63
Dec 2006	8,386,689	17,024	966,633	9,370,346	11.51
Mar 2007	9,370,346	178,455	339,805	9,888,606	3.61
Jun 2007	9,888,606	15,594	878,881	10,783,081	8.88
Sep 2007	10,783,081	-51,085	513,827	11,245,823	4.77
Dec 2007	11,245,823	-119,172	-166,486	10,960,165	-1.49
Mar 2008	10,960,165	2,058,997	-1,125,046	11,894,116	-10.03
Jun 2008	11,894,116	-47,726	195,591	12,041,981	1.65
Sep 2008	12,041,981	-54,555	-2,894,450	9,092,976	-24.11

**PRINCIPAL INTERNATIONAL STOCK  
QUARTERLY ASSET ALLOCATION (%)**

**INTERNATIONAL EQUITY**

Period Ending	Actual Weight
03/31/2006	100.00
06/30/2006	100.00
09/30/2006	100.00
12/31/2006	100.00
03/31/2007	100.00
06/30/2007	100.00
09/30/2007	100.00
12/31/2007	100.00
03/31/2008	100.00
06/30/2008	100.00
09/30/2008	100.00





Profile

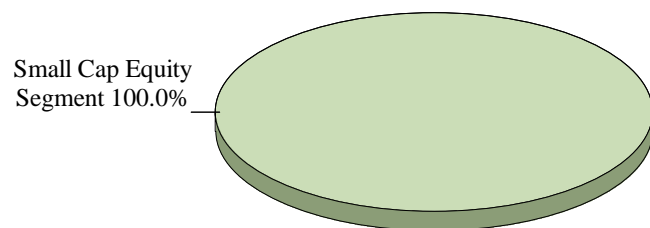
MANNING AND NAPIER	
Style:	Small Cap
Benchmark:	RUSSELL 2000
Universe:	Small Cap Managers
Inception Date:	February 1, 2008

Account Reconciliation

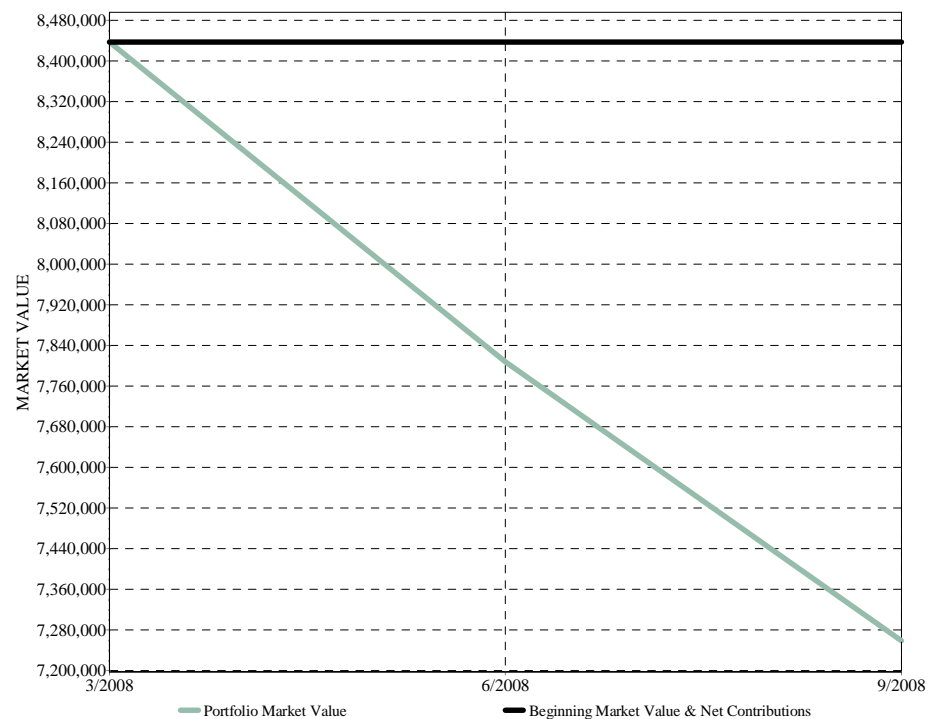
Source	Quarter	Year to Date	3/2008-9/2008
Beginning Value	7,807,871		8,437,538
Net Flows	0	9,600,000	0
Investment G/L	-549,610	-2,341,739	-1,179,277
Ending Value	7,258,261	7,258,261	7,258,261

Asset Allocation

Total Market Value  
As Of September 30, 2008  
\$7,258,261



Source Of Portfolio Growth



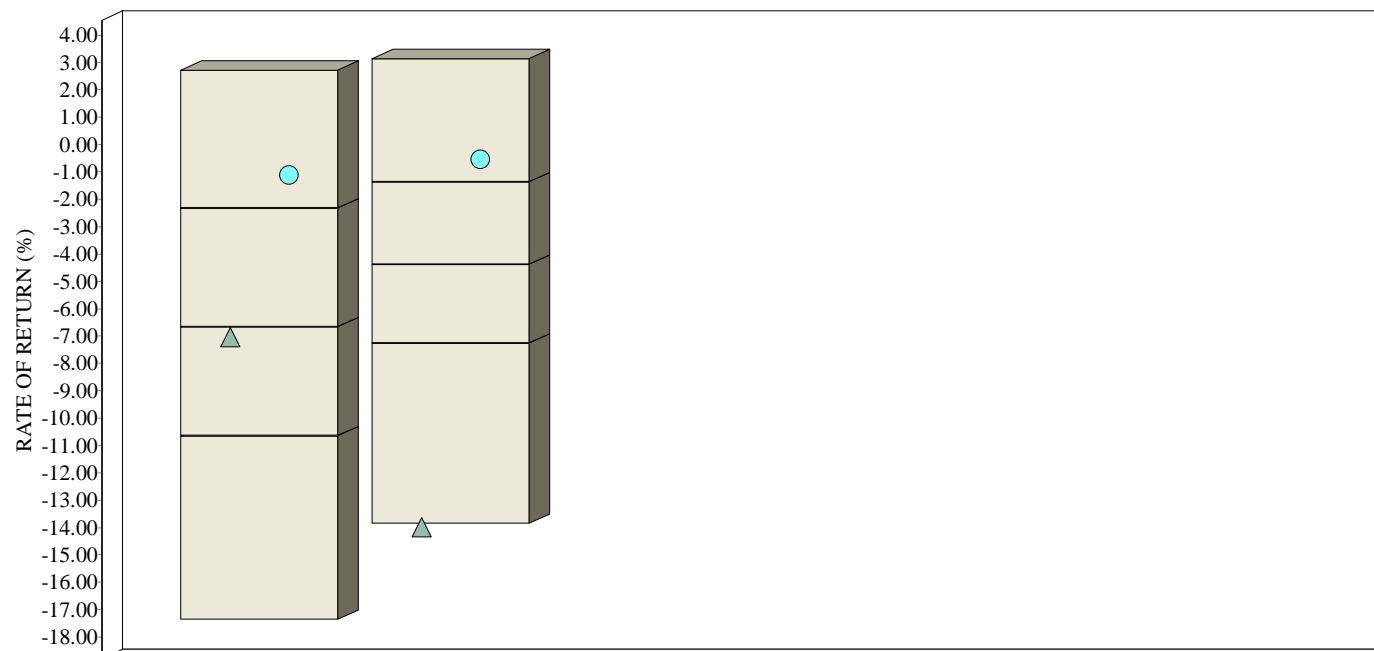
**MANNING AND NAPIER - TOTAL FUND**  
**3/2008 Through 9/2008**

**Trailing Returns**



	1 Qtr	Since Inception
TOTAL FUND	-7.04	-13.98
RUSSELL 2000	-1.11	-0.54
Difference	-5.93	-13.44

# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST SMALL CAP MANAGERS



	LATEST QUARTER		SINCE INCEPTION	
HIGHEST VALUE	2.72		3.14	
FIRST QUARTILE	-2.34		-1.38	
MEDIAN VALUE	-6.67		-4.37	
THIRD QUARTILE	-10.65		-7.26	
LOWEST VALUE	-17.37		-13.85	
MEAN	-6.75		-4.82	

	LATEST QUARTER		SINCE INCEPTION	
	RETURN	RANK	RETURN	RANK
▲ MANNING AND NAPIER	-7.04	51	-13.98	99
● RUSSELL 2000	-1.11	13	-0.54	14

**MANNING AND NAPIER**  
**TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Jun 2008	8,437,538	0	-629,667	7,807,871	-7.46
Sep 2008	7,807,871	0	-549,610	7,258,261	-7.04

**MANNING AND NAPIER  
QUARTERLY ASSET ALLOCATION (%)**

## SMALL CAP EQ

Period Ending	Actual Weight
03/31/2008	100.00
06/30/2008	100.00
09/30/2008	100.00



Profile

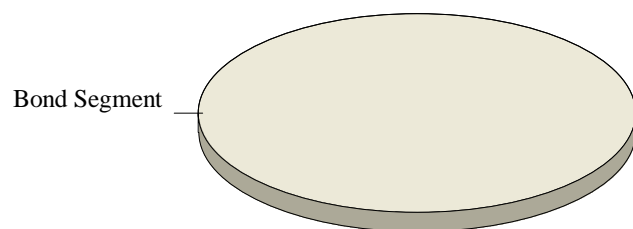
PRINCIPAL BOND AND MORTGAGE	
Style:	Core Fixed Income
Benchmark:	LB AGGREGATE BOND
Universe:	Core Fixed Income
Inception Date:	December 31, 1994

Account Reconciliation

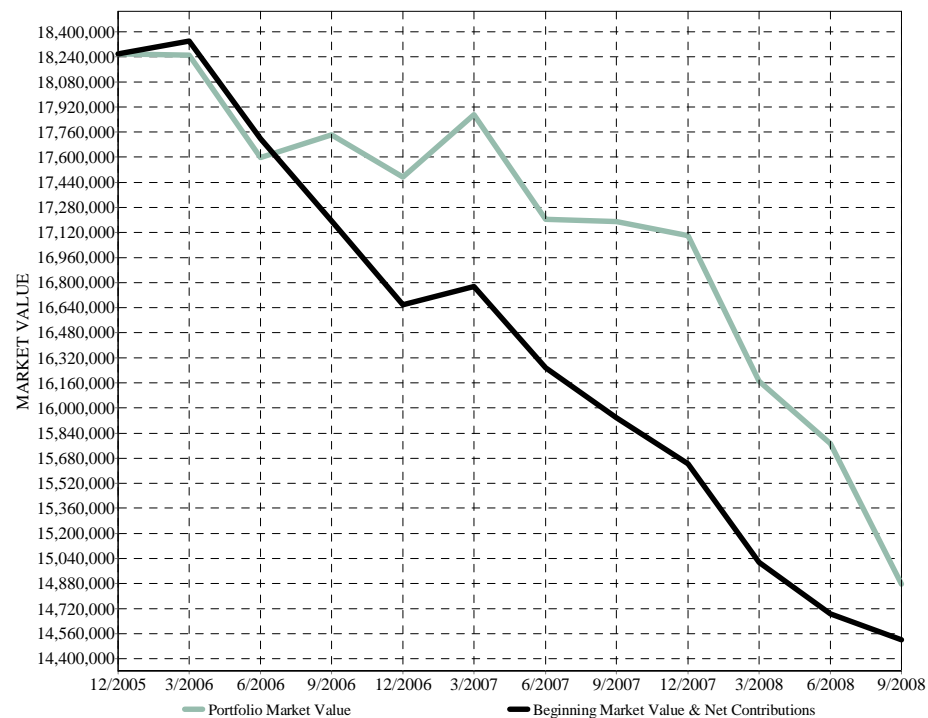
Source	Quarter	Year to Date	12/2005 - 6/2007
Beginning Value	15,772,301	17,100,874	18,259,972
Net Flows	-164,745	-1,124,756	-3,738,666
Investment G/L	-729,496	-1,098,058	356,754
Ending Value	14,878,060	14,878,060	14,878,060

Asset Allocation

Total Market Value  
As Of September 30, 2008  
\$14,878,060



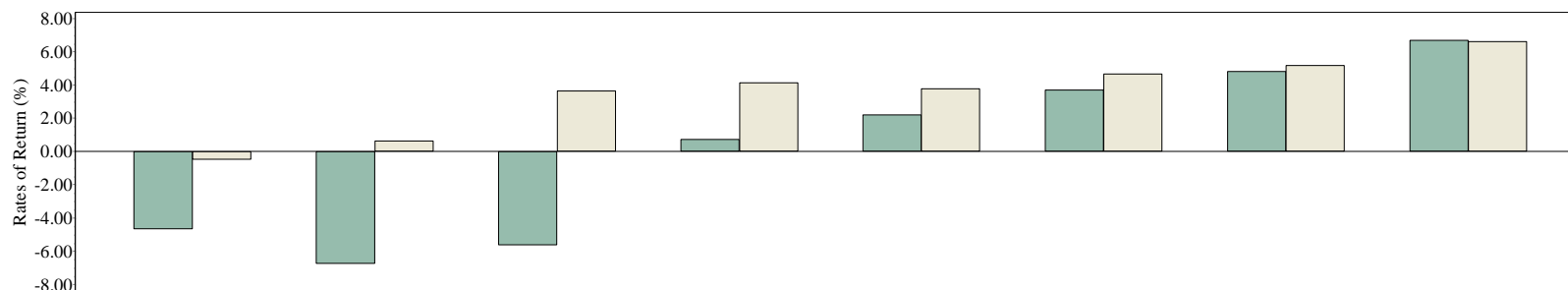
Source Of Portfolio Growth



## PRINCIPAL BOND AND MORTGAGE - TOTAL FUND

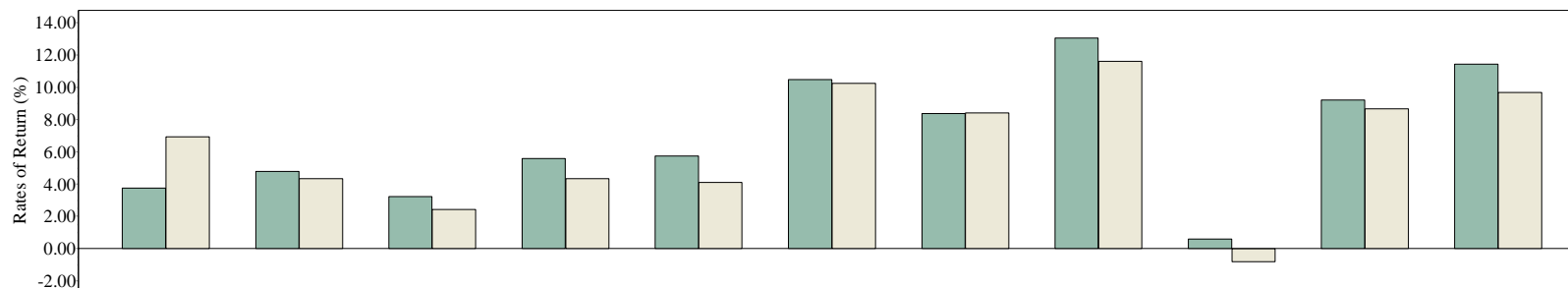
### 12/1994 Through 9/2008

#### Trailing Returns



	1 Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception
TOTAL FUND	-4.66	-6.73	-5.62	0.74	2.23	3.72	4.84	6.71
LB AGGREGATE BOND	-0.48	0.64	3.66	4.15	3.79	4.69	5.20	6.64
Difference	-4.18	-7.37	-9.28	-3.41	-1.56	-0.97	-0.36	0.07

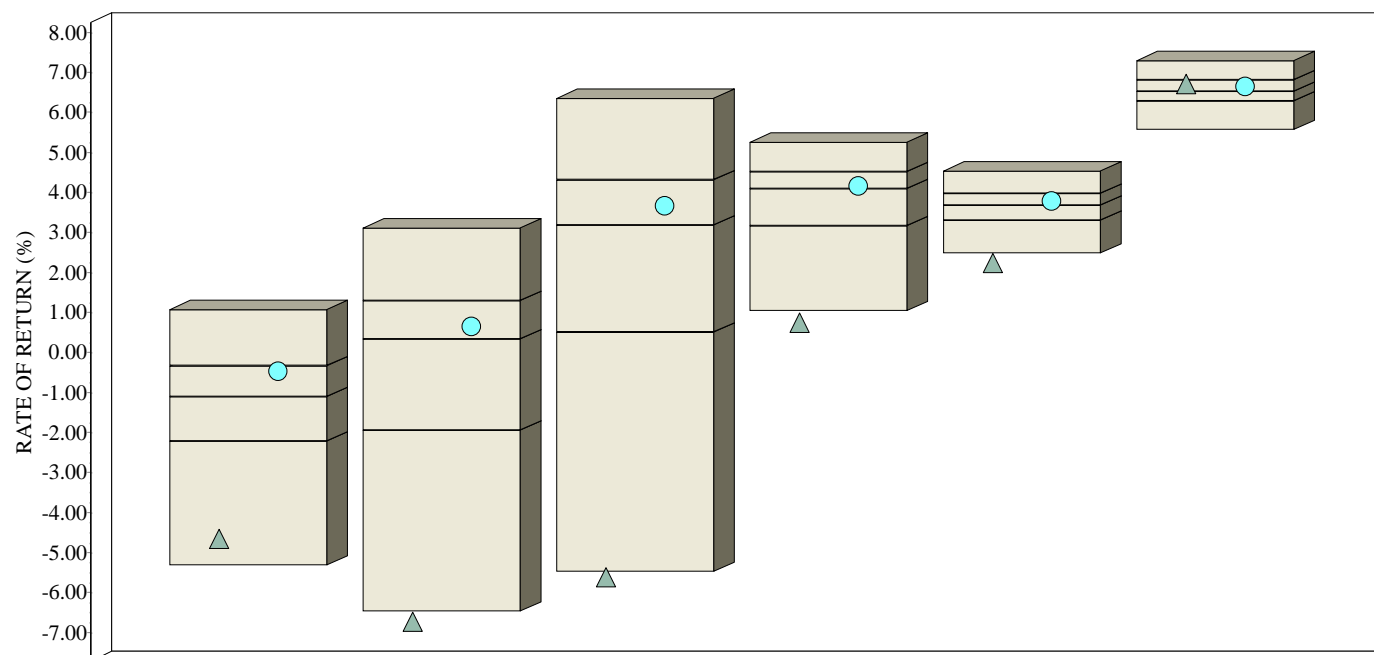
#### Calendar Year Returns



	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
TOTAL FUND	3.77	4.79	3.24	5.60	5.76	10.50	8.39	13.09	0.60	9.23	11.44
LB AGGREGATE BOND	6.96	4.33	2.43	4.34	4.11	10.27	8.42	11.63	-0.83	8.67	9.68
Difference	-3.19	0.46	0.81	1.26	1.65	0.23	-0.04	1.46	1.43	0.55	1.76



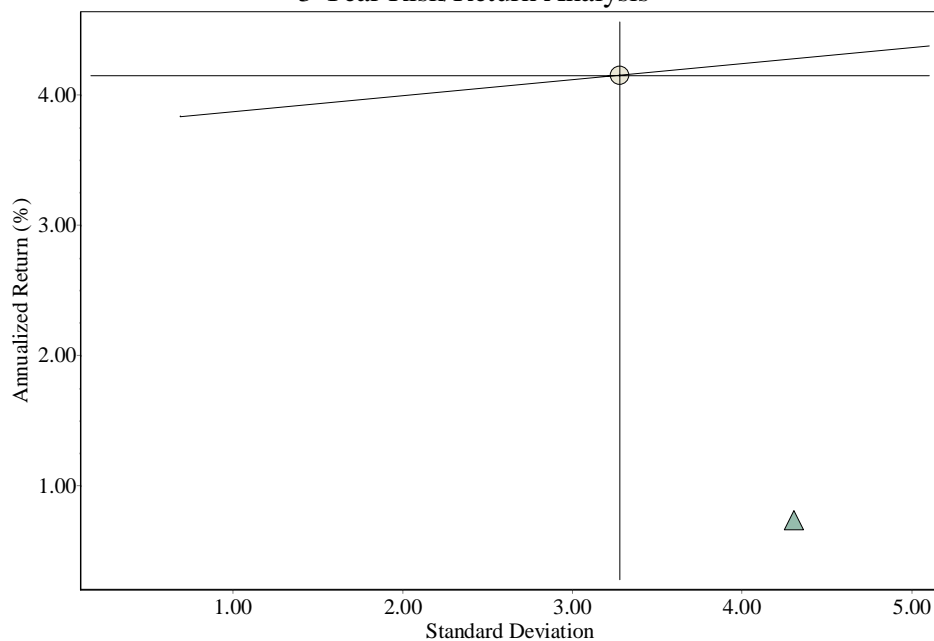
# QUARTILE RANKING ANALYSIS TOTAL FUND AGAINST CORE FIXED INCOME



	LATEST QUARTER		YEAR-TO-DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
HIGHEST VALUE		1.08		3.11		6.35		5.26		4.53		7.29
FIRST QUARTILE		-0.33		1.30		4.32		4.52		3.97		6.81
MEDIAN VALUE		-1.11		0.33		3.18		4.09		3.67		6.52
THIRD QUARTILE		-2.23		-1.95		0.51		3.16		3.30		6.28
LOWEST VALUE		-5.32		-6.48		-5.48		1.04		2.47		5.55
MEAN		-1.33		-0.25		2.48		3.82		3.59		6.51
	LATEST QUARTER		YEAR-TO-DATE		ONE YEAR		THREE YEARS		FIVE YEARS		SINCE INCEPTION	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL BOND MTG	-4.66	98	-6.73	99	-5.62	99	0.74	99	2.23	99	6.71	31
● LB AGGREGATE BOND	-0.48	31	0.64	44	3.66	41	4.15	48	3.79	38	6.64	44

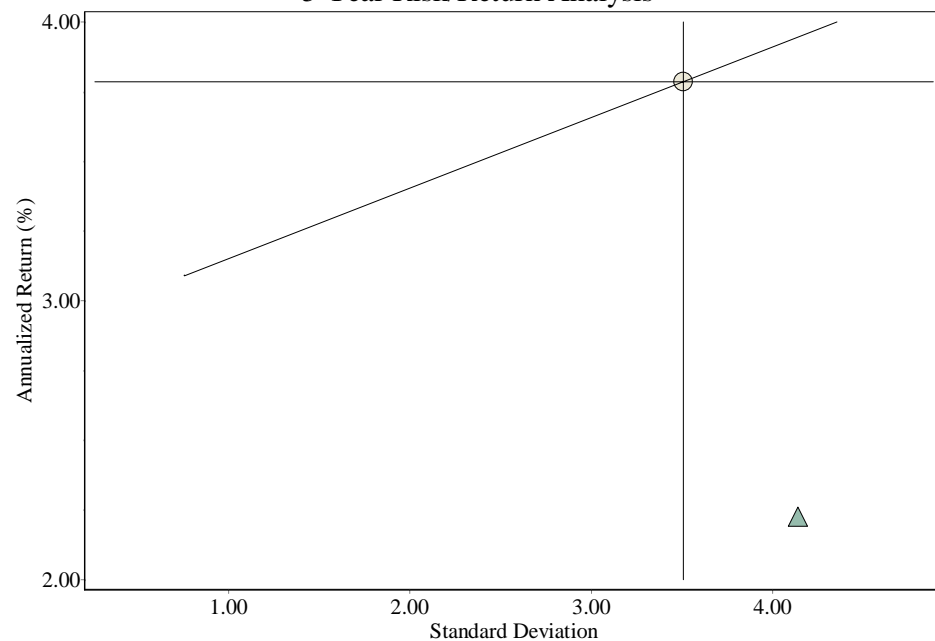
# PRINCIPAL BOND AND MORTGAGE RETURN VS RISK

3 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL BOND MTG	0.74	4.31	-3.21	0.70	33.71
● LB AGGREGATE BOND	4.15	3.28	0.00	1.00	100.00

5 Year Risk/Return Analysis



	Return	Std Dev	Alpha	Beta	R-Squared
▲ PRINCIPAL BOND MTG	2.23	4.14	-1.40	0.86	54.77
● LB AGGREGATE BOND	3.79	3.51	0.00	1.00	100.00

**PRINCIPAL BOND AND MORTGAGE  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 1995	N/A	0	0	N/A	5.28
Jun 1995	N/A	0	0	N/A	6.51
Sep 1995	N/A	0	0	N/A	2.05
Dec 1995	N/A	0	0	N/A	4.65
Mar 1996	N/A	0	0	N/A	-1.26
Jun 1996	N/A	0	0	N/A	0.66
Sep 1996	N/A	0	0	N/A	2.34
Dec 1996	N/A	0	0	N/A	3.37
Mar 1997	N/A	0	0	N/A	0.07
Jun 1997	N/A	0	0	N/A	4.35
Sep 1997	N/A	0	0	N/A	3.69
Dec 1997	N/A	0	0	N/A	2.92
Mar 1998	N/A	0	0	N/A	1.96
Jun 1998	N/A	0	0	N/A	2.52
Sep 1998	N/A	0	0	N/A	3.83
Dec 1998	N/A	0	0	N/A	0.64
Mar 1999	N/A	0	0	N/A	0.39
Jun 1999	N/A	0	0	N/A	-0.89
Sep 1999	N/A	0	0	N/A	1.07
Dec 1999	N/A	0	0	N/A	0.04
Mar 2000	N/A	0	0	N/A	2.64
Jun 2000	N/A	0	0	N/A	1.82
Sep 2000	N/A	0	0	N/A	3.43
Dec 2000	N/A	0	0	N/A	4.62
Mar 2001	N/A	0	0	N/A	2.64
Jun 2001	N/A	0	0	N/A	0.91
Sep 2001	N/A	0	0	N/A	4.74
Dec 2001	N/A	0	0	N/A	-0.09

**PRINCIPAL BOND AND MORTGAGE  
TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Mar 2002	N/A	0	0	N/A	0.17
Jun 2002	N/A	0	17,507,309	17,507,309	3.76
Sep 2002	17,507,309	0	245,608	17,752,917	4.57
Dec 2002	17,752,917	0	-45,649	17,707,268	1.67
Mar 2003	17,707,268	0	-121,848	17,585,420	1.72
Jun 2003	17,585,420	0	130,200	17,715,620	2.92
Sep 2003	17,715,620	0	-384,598	17,331,022	0.06
Dec 2003	17,331,022	0	-217,931	17,113,091	0.96
Mar 2004	17,113,091	0	1,421,510	18,534,601	2.95
Jun 2004	18,534,601	0	-776,403	17,758,198	-2.12
Sep 2004	17,758,198	0	117,376	17,875,574	3.42
Dec 2004	17,875,574	0	1,188,448	19,064,022	1.33
Mar 2005	19,064,022	0	-36,191	19,027,831	-0.36
Jun 2005	19,027,831	-427,848	531,134	19,131,117	2.96
Sep 2005	19,131,117	-438,404	-63,397	18,629,316	-0.16
Dec 2005	18,629,316	-487,332	117,988	18,259,972	0.80
Mar 2006	18,259,972	80,714	-87,760	18,252,926	-0.48
Jun 2006	18,252,926	-620,233	-34,482	17,598,211	-0.19
Sep 2006	17,598,211	-527,584	673,556	17,744,183	3.91
Dec 2006	17,744,183	-535,765	266,874	17,475,292	1.53
Mar 2007	17,475,292	117,510	279,992	17,872,794	1.62
Jun 2007	17,872,794	-517,988	-150,993	17,203,813	-0.86
Sep 2007	17,203,813	-316,543	303,709	17,190,979	1.79
Dec 2007	17,190,979	-294,021	203,916	17,100,874	1.20
Mar 2008	17,100,874	-632,098	-299,886	16,168,890	-1.75
Jun 2008	16,168,890	-327,913	-68,676	15,772,301	-0.43
Sep 2008	15,772,301	-164,745	-729,496	14,878,060	-4.66

**PRINCIPAL BOND AND MORTGAGE  
QUARTERLY ASSET ALLOCATION (%)**

**BOND**

Period Ending	Actual Weight
03/31/2006	100.00
06/30/2006	100.00
09/30/2006	100.00
12/31/2006	100.00
03/31/2007	100.00
06/30/2007	100.00
09/30/2007	100.00
12/31/2007	100.00
03/31/2008	100.00
06/30/2008	100.00
09/30/2008	100.00



### Profile

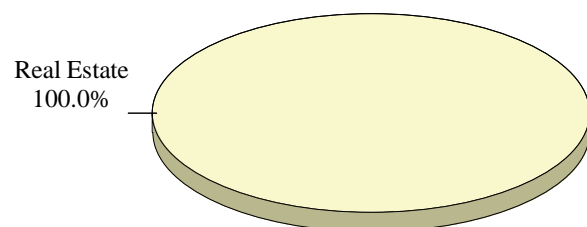
PRUDENTIAL	
Style:	Real Estate
Benchmark:	NCREIF ODCE INDEX
Universe:	
Inception Date:	March 31, 2008

### Account Reconciliation

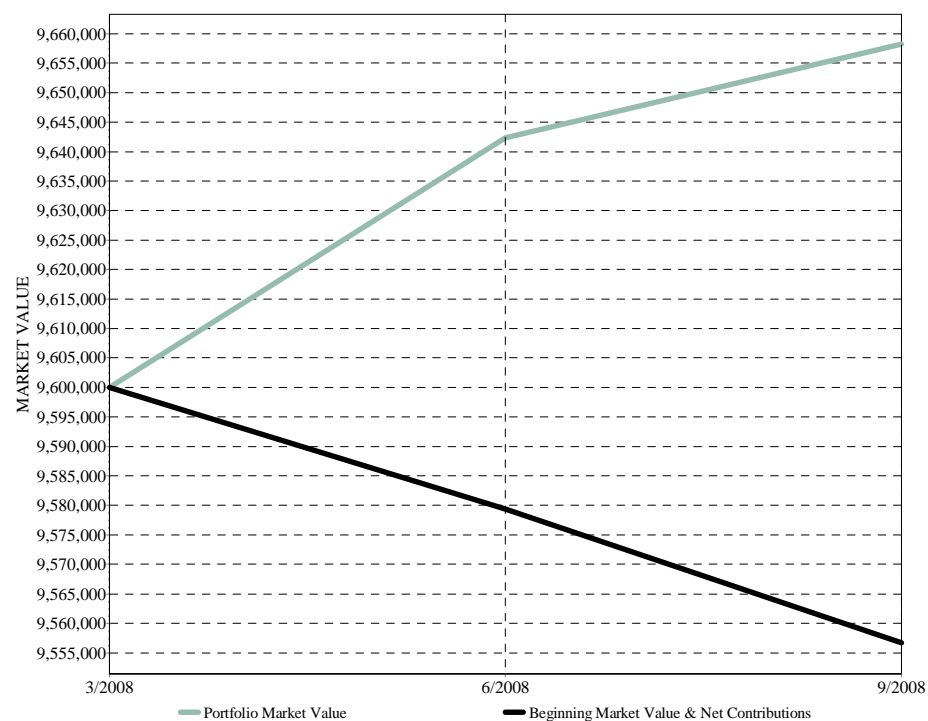
Source	Quarter	Year to Date	3/2008-9/2008
Beginning Value	9,642,387		9,600,000
Net Flows	-22,672	9,556,703	-43,297
Investment G/L	38,504	101,516	101,516
Ending Value	9,658,219	9,658,219	9,658,219

### Asset Allocation

Total Market Value  
As Of September 30, 2008  
\$9,658,219

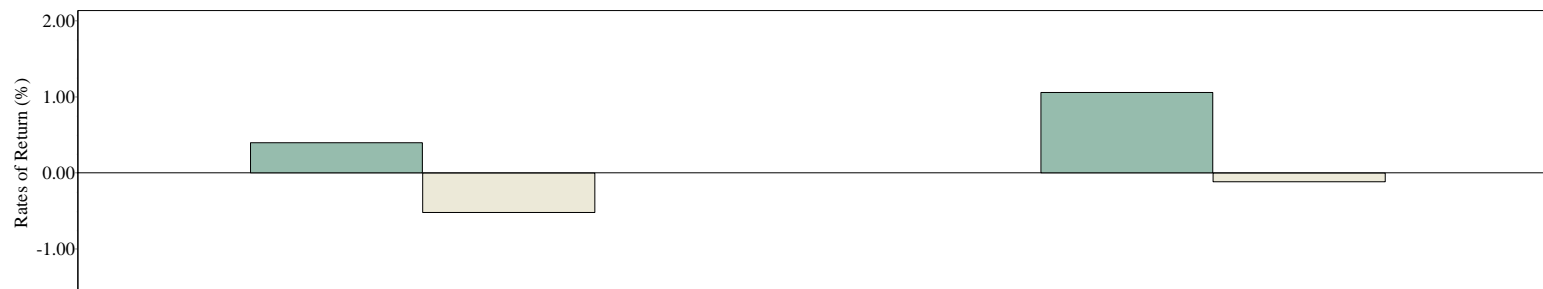


### Source Of Portfolio Growth



**PRUDENTIAL - TOTAL FUND**  
**3/2008 Through 9/2008**

**Trailing Returns**



	1 Qtr	Since Inception
TOTAL FUND	0.40	1.06
NCREIF ODCE INDEX	-0.52	-0.12
Difference	0.92	1.18



**PRUDENTIAL**  
**TOTAL FUND MARKET VALUES AND CASH FLOWS**

Period Ending	Beginning Value	Net Flows	Investment Gain/Loss	Ending Value	Return (%)
Jun 2008	9,600,000	-20,625	63,012	9,642,387	0.66
Sep 2008	9,642,387	-22,672	38,504	9,658,219	0.40

**PRUDENTIAL  
QUARTERLY ASSET ALLOCATION (%)**

**REAL ESTATE**

Period Ending	Actual Weight
03/31/2008	100.00
06/30/2008	100.00
09/30/2008	100.00

**COMPOSITE  
RISK MEASURES - TOTAL FUND**

3 Yr	Fund	Policy	Diff
Negative Periods	5.00	5.00	0.00
Positive Periods	7.00	7.00	0.00
Batting Average	41.67	58.33	-16.67
Worst Qtr	-8.99	-6.72	-2.27
Best Qtr	5.79	5.30	0.48
Range	14.78	12.02	2.75
Worst 4 Qtrs	-19.37	-13.45	-5.92
Standard Deviation	9.71	7.59	2.12
Beta	1.29	1.00	0.29
Alpha	-1.47	0.00	-1.47
R-Squared	98.74	100.00	-1.26
Sharpe Ratio	-0.34	-0.17	-0.17
Treynor Ratio	-2.54	-1.32	-1.22
Tracking Error	2.30	0.00	2.30
Information Ratio	-0.77		

5 Yr	Fund	Policy	Diff
Negative Periods	7.00	6.00	1.00
Positive Periods	13.00	14.00	-1.00
Batting Average	45.00	55.00	-10.00
Worst Qtr	-8.99	-6.72	-2.27
Best Qtr	7.79	8.65	-0.86
Range	16.78	15.37	1.41
Worst 4 Qtrs	-19.37	-13.45	-5.92
Standard Deviation	8.72	7.47	1.25
Beta	1.14	1.00	0.14
Alpha	-1.57	0.00	-1.57
R-Squared	96.67	100.00	-3.33
Sharpe Ratio	0.17	0.38	-0.20
Treynor Ratio	1.33	2.81	-1.48
Tracking Error	1.88	0.00	1.88
Information Ratio	-0.61		

7 Yr	Fund	Policy	Diff
Negative Periods		9.00	
Positive Periods		19.00	
Batting Average			
Worst Qtr		-10.32	
Best Qtr		11.35	
Range		21.68	
Worst 4 Qtrs		-13.45	
Standard Deviation		9.55	
Beta		1.00	
Alpha		0.00	
R-Squared		100.00	
Sharpe Ratio		0.26	
Treynor Ratio		2.48	
Tracking Error		0.00	
Information Ratio			

Incept	Fund	Policy	Diff
Negative Periods	10.00	9.00	1.00
Positive Periods	17.00	18.00	-1.00
Batting Average	44.44	55.56	-11.11
Worst Qtr	-8.99	-10.32	1.34
Best Qtr	10.03	11.35	-1.32
Range	19.02	21.68	-2.66
Worst 4 Qtrs	-19.37	-13.45	-5.92
Standard Deviation	9.37	9.53	-0.16
Beta	0.95	1.00	-0.05
Alpha	-0.40	0.00	-0.40
R-Squared	94.23	100.00	-5.77
Sharpe Ratio	0.13	0.18	-0.05
Treynor Ratio	1.24	1.68	-0.44
Tracking Error	2.27	0.00	2.27
Information Ratio	-0.23		

Past performance is not a guarantee of future results.

**PRINCIPAL LARGE CAP STOCK INDEX  
RISK MEASURES - TOTAL FUND**

3 Yr	Fund	Policy	Diff
Negative Periods	5.00	5.00	0.00
Positive Periods	7.00	7.00	0.00
Batting Average	16.67	83.33	-66.67
Worst Qtr	-9.62	-9.45	-0.17
Best Qtr	6.60	6.70	-0.10
Range	16.22	16.14	0.08
Worst 4 Qtrs	-22.15	-21.98	-0.17
Standard Deviation	10.82	10.83	0.00
Beta	1.00	1.00	0.00
Alpha	-0.24	0.00	-0.24
R-Squared	99.99	100.00	-0.01
Sharpe Ratio	-0.36	-0.33	-0.02
Treynor Ratio	-3.86	-3.62	-0.24
Tracking Error	0.12	0.00	0.12
Information Ratio	-1.95		

5 Yr	Fund	Policy	Diff
Negative Periods	7.00	7.00	0.00
Positive Periods	13.00	13.00	0.00
Batting Average	30.00	70.00	-40.00
Worst Qtr	-9.62	-9.45	-0.17
Best Qtr	12.10	12.18	-0.08
Range	21.72	21.62	0.10
Worst 4 Qtrs	-22.15	-21.98	-0.17
Standard Deviation	10.71	10.72	-0.01
Beta	1.00	1.00	0.00
Alpha	-0.16	0.00	-0.16
R-Squared	99.99	100.00	-0.01
Sharpe Ratio	0.18	0.19	-0.02
Treynor Ratio	1.91	2.08	-0.17
Tracking Error	0.11	0.00	0.11
Information Ratio	-1.43		

7 Yr	Fund	Policy	Diff
Negative Periods	10.00	10.00	0.00
Positive Periods	18.00	18.00	0.00
Batting Average	32.14	67.86	-35.71
Worst Qtr	-17.27	-17.28	0.01
Best Qtr	15.36	15.40	-0.04
Range	32.63	32.68	-0.05
Worst 4 Qtrs	-24.77	-24.77	0.00
Standard Deviation	14.73	14.74	-0.01
Beta	1.00	1.00	0.00
Alpha	-0.12	0.00	-0.12
R-Squared	100.00	100.00	0.00
Sharpe Ratio	0.05	0.06	-0.01
Treynor Ratio	0.77	0.89	-0.12
Tracking Error	0.10	0.00	0.10
Information Ratio	-1.16		

Incept	Fund	Policy	Diff
Negative Periods	17.00	17.00	0.00
Positive Periods	38.00	38.00	0.00
Batting Average	61.82	38.18	23.64
Worst Qtr	-17.27	-17.28	0.01
Best Qtr	21.37	21.30	0.07
Range	38.64	38.57	0.07
Worst 4 Qtrs	-26.58	-26.62	0.04
Standard Deviation	16.14	16.13	0.01
Beta	1.00	1.00	0.00
Alpha	0.06	0.00	0.06
R-Squared	99.99	100.00	-0.01
Sharpe Ratio	0.32	0.32	0.00
Treynor Ratio	5.16	5.09	0.06
Tracking Error	0.14	0.00	0.14
Information Ratio	0.46		

Past performance is not a guarantee of future results.

### PRINCIPAL INTERNATIONAL STOCK RISK MEASURES - TOTAL FUND

3 Yr	Fund	Policy	Diff
Negative Periods	4.00	4.00	0.00
Positive Periods	8.00	8.00	0.00
Batting Average	58.33	41.67	16.67
Worst Qtr	-24.11	-20.56	-3.55
Best Qtr	11.91	10.35	1.55
Range	36.01	30.91	5.10
Worst 4 Qtrs	-31.63	-30.50	-1.13
Standard Deviation	19.99	17.01	2.98
Beta	1.17	1.00	0.17
Alpha	2.74	0.00	2.74
R-Squared	97.11	100.00	-2.89
Sharpe Ratio	-0.04	-0.16	0.12
Treynor Ratio	-0.62	-2.71	2.09
Tracking Error	4.31	0.00	4.31
Information Ratio	0.57		

5 Yr	Fund	Policy	Diff
Negative Periods	5.00	7.00	-2.00
Positive Periods	15.00	13.00	2.00
Batting Average	65.00	35.00	30.00
Worst Qtr	-24.11	-20.56	-3.55
Best Qtr	17.72	17.08	0.64
Range	41.83	37.64	4.19
Worst 4 Qtrs	-31.63	-30.50	-1.13
Standard Deviation	18.85	16.62	2.23
Beta	1.11	1.00	0.11
Alpha	2.85	0.00	2.85
R-Squared	96.31	100.00	-3.69
Sharpe Ratio	0.54	0.40	0.14
Treynor Ratio	9.14	6.60	2.54
Tracking Error	4.05	0.00	4.05
Information Ratio	0.91		

7 Yr	Fund	Policy	Diff
Negative Periods	9.00	10.00	-1.00
Positive Periods	19.00	18.00	1.00
Batting Average	64.29	35.71	28.57
Worst Qtr	-24.11	-20.56	-3.55
Best Qtr	17.86	19.27	-1.41
Range	41.97	39.83	2.14
Worst 4 Qtrs	-31.63	-30.50	-1.13
Standard Deviation	19.55	18.43	1.11
Beta	1.04	1.00	0.04
Alpha	2.41	0.00	2.41
R-Squared	96.17	100.00	-3.83
Sharpe Ratio	0.40	0.28	0.12
Treynor Ratio	7.50	5.18	2.32
Tracking Error	3.86	0.00	3.86
Information Ratio	0.68		

Incept	Fund	Policy	Diff
Negative Periods	17.00	22.00	-5.00
Positive Periods	38.00	33.00	5.00
Batting Average	63.64	36.36	27.27
Worst Qtr	-24.11	-20.56	-3.55
Best Qtr	17.86	20.65	-2.79
Range	41.97	41.21	0.76
Worst 4 Qtrs	-31.63	-30.50	-1.13
Standard Deviation	17.89	17.68	0.21
Beta	0.93	1.00	-0.07
Alpha	5.45	0.00	5.45
R-Squared	85.46	100.00	-14.54
Sharpe Ratio	0.37	0.07	0.31
Treynor Ratio	7.14	1.16	5.99
Tracking Error	6.90	0.00	6.90
Information Ratio	0.75		

Past performance is not a guarantee of future results.

**PRINCIPAL BOND AND MORTGAGE  
RISK MEASURES - TOTAL FUND**

3 Yr	Fund	Policy	Diff
Negative Periods	6.00	5.00	1.00
Positive Periods	6.00	7.00	-1.00
Batting Average	50.00	50.00	0.00
Worst Qtr	-4.66	-1.02	-3.64
Best Qtr	3.91	3.81	0.10
Range	8.57	4.82	3.74
Worst 4 Qtrs	-5.62	3.66	-9.28
Standard Deviation	4.31	3.28	1.03
Beta	0.70	1.00	-0.30
Alpha	-3.21	0.00	-3.21
R-Squared	33.71	100.00	-66.29
Sharpe Ratio	-0.72	0.10	-0.81
Treynor Ratio	-4.41	0.32	-4.73
Tracking Error	3.28	0.00	3.28
Information Ratio	-1.01		

5 Yr	Fund	Policy	Diff
Negative Periods	9.00	8.00	1.00
Positive Periods	11.00	12.00	-1.00
Batting Average	65.00	35.00	30.00
Worst Qtr	-4.66	-2.44	-2.22
Best Qtr	3.91	3.81	0.10
Range	8.57	6.24	2.33
Worst 4 Qtrs	-5.62	-0.81	-4.81
Standard Deviation	4.14	3.51	0.63
Beta	0.86	1.00	-0.14
Alpha	-1.40	0.00	-1.40
R-Squared	54.77	100.00	-45.23
Sharpe Ratio	-0.21	0.20	-0.41
Treynor Ratio	-1.01	0.70	-1.70
Tracking Error	2.76	0.00	2.76
Information Ratio	-0.55		

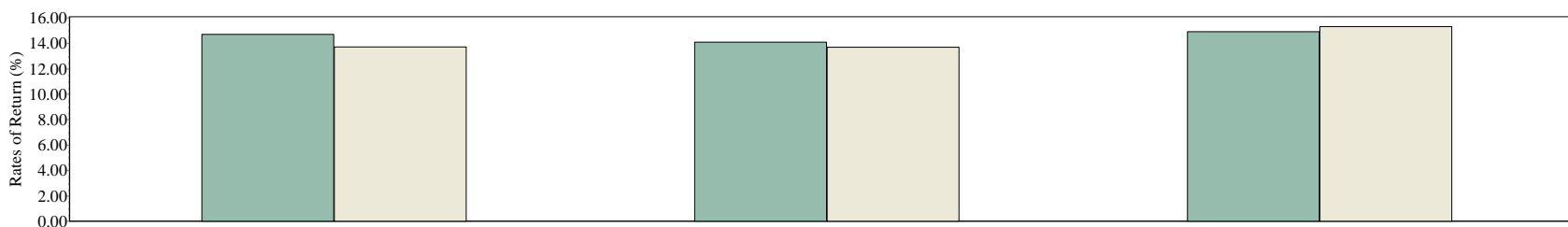
7 Yr	Fund	Policy	Diff
Negative Periods	10.00	9.00	1.00
Positive Periods	18.00	19.00	-1.00
Batting Average	67.86	32.14	35.71
Worst Qtr	-4.66	-2.44	-2.22
Best Qtr	4.57	4.59	-0.02
Range	9.23	7.02	2.21
Worst 4 Qtrs	-5.62	-0.81	-4.81
Standard Deviation	4.09	3.52	0.57
Beta	0.95	1.00	-0.05
Alpha	-0.81	0.00	-0.81
R-Squared	67.50	100.00	-32.50
Sharpe Ratio	0.27	0.59	-0.32
Treynor Ratio	1.17	2.08	-0.91
Tracking Error	2.37	0.00	2.37
Information Ratio	-0.40		

Incept	Fund	Policy	Diff
Negative Periods	12.00	14.00	-2.00
Positive Periods	43.00	41.00	2.00
Batting Average	76.36	23.64	52.73
Worst Qtr	-4.66	-2.44	-2.22
Best Qtr	6.51	6.09	0.42
Range	11.17	8.53	2.64
Worst 4 Qtrs	-5.62	-0.83	-4.79
Standard Deviation	4.24	3.86	0.38
Beta	0.97	1.00	-0.03
Alpha	0.17	0.00	0.17
R-Squared	80.53	100.00	-19.47
Sharpe Ratio	0.68	0.73	-0.05
Treynor Ratio	2.98	2.82	0.16
Tracking Error	1.80	0.00	1.80
Information Ratio	0.04		

Past performance is not a guarantee of future results.

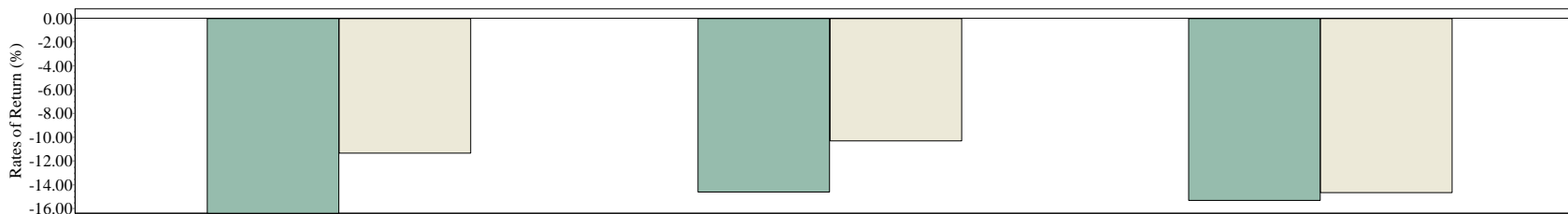
## COMPOSITE TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

### Performance in Rising Markets



	3 Yr	5 Yr	Inception
TOTAL FUND	14.73	14.13	14.95
POLICY INDEX	13.74	13.71	15.34
Difference	0.99	0.42	-0.39
Ratio	1.07	1.03	0.97
Up Periods	7	14	18

### Performance in Declining Markets



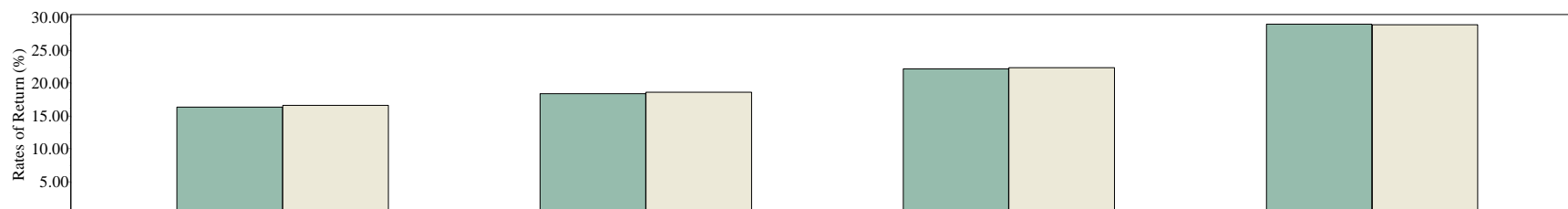
	3 Yr	5 Yr	Inception
TOTAL FUND	-16.42	-14.64	-15.32
POLICY INDEX	-11.36	-10.31	-14.67
Difference	-5.06	-4.32	-0.65
Ratio	1.45	1.42	1.04
Down Periods	5	6	9

The comparative index for this analysis is the POLICY INDEX.

## PRINCIPAL LARGE CAP STOCK INDEX

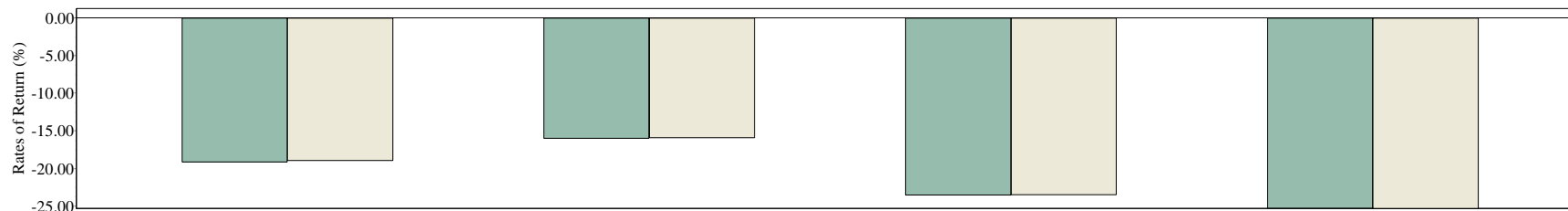
### TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

#### Performance in Rising Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	16.34	18.43	22.25	29.01
S&P 500	16.63	18.63	22.41	28.94
Difference	-0.29	-0.20	-0.16	0.07
Ratio	0.98	0.99	0.99	1.00
Up Periods	7	13	18	38

#### Performance in Declining Markets



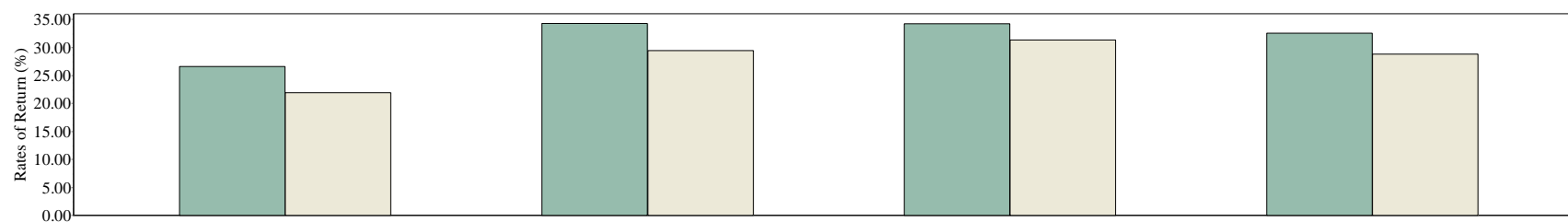
	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	-19.14	-16.03	-23.55	-25.27
S&P 500	-18.95	-15.92	-23.48	-25.33
Difference	-0.18	-0.12	-0.07	0.05
Ratio	1.01	1.01	1.00	1.00
Down Periods	5	7	10	17

The comparative index for this analysis is the S&P 500.



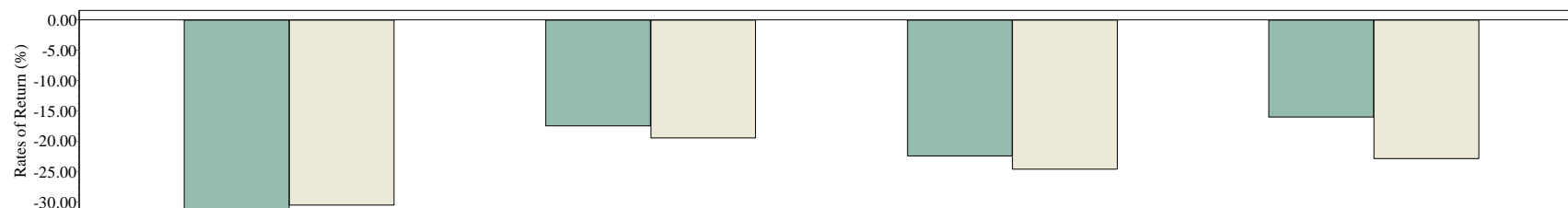
## PRINCIPAL INTERNATIONAL STOCK TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

### Performance in Rising Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	26.62	34.35	34.30	32.62
MSCI NET EAFE	21.98	29.53	31.44	28.88
Difference	4.64	4.82	2.85	3.74
Ratio	1.21	1.16	1.09	1.13
Up Periods	8	13	18	33

### Performance in Declining Markets

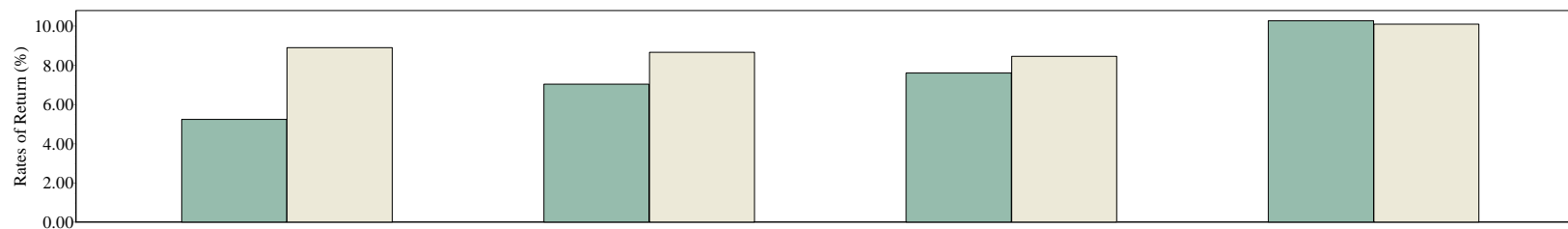


	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	-31.63	-17.49	-22.42	-16.01
MSCI NET EAFE	-30.50	-19.45	-24.58	-22.84
Difference	-1.13	1.96	2.16	6.82
Ratio	1.04	0.90	0.91	0.70
Down Periods	4	7	10	22

The comparative index for this analysis is the MSCI NET EAFE.

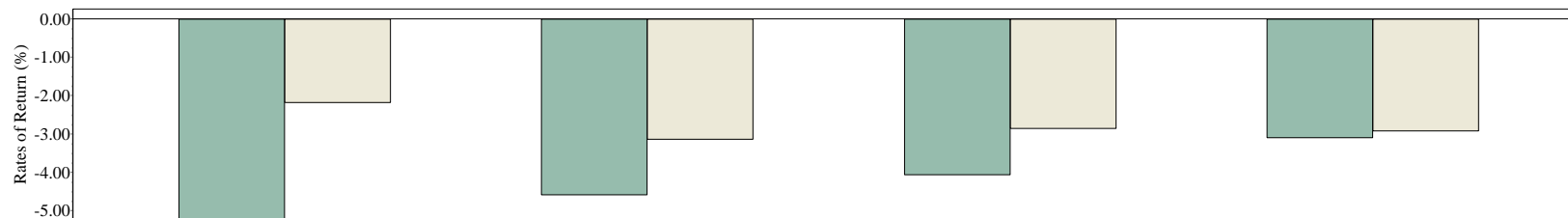
## PRINCIPAL BOND AND MORTGAGE TOTAL FUND PERFORMANCE IN RISING AND DECLINING MARKETS

### Performance in Rising Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	5.25	7.04	7.62	10.28
LB AGGREGATE BOND	8.92	8.68	8.47	10.12
Difference	-3.67	-1.63	-0.85	0.16
Ratio	0.59	0.81	0.90	1.02
Up Periods	7	12	19	41

### Performance in Declining Markets



	3 Yr	5 Yr	7 Yr	Inception
TOTAL FUND	-5.25	-4.60	-4.07	-3.10
LB AGGREGATE BOND	-2.18	-3.14	-2.86	-2.93
Difference	-3.07	-1.45	-1.21	-0.17
Ratio	2.41	1.46	1.42	1.06
Down Periods	5	8	9	14

The comparative index for this analysis is the LB AGGREGATE BOND.

**COMPOSITE  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT						POLICY INDEX			
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY	SINCE		QUARTERLY	SEMI	ANNUALLY	SINCE
					12/2001					12/2001
03/2002	0.28				0.28		0.32			0.32
06/2002	-3.50	*	-3.23	*	-3.23	*	-5.91	-5.61		-5.61
09/2002	-7.84	*			-10.82	*	-10.32			-15.36
12/2002	5.39		-2.87	*	-6.01	*	5.88	-5.05	-10.38	-10.38
03/2003	-1.93	*			-6.31	*	-2.34			-10.11
06/2003	10.03		7.91		0.95	*	11.35	8.74		-1.70
09/2003	1.36				1.59	*	2.51			-0.06
12/2003	7.79		9.26		5.27	*	8.65	11.38	21.12	4.19
03/2004	2.56	*			5.85	*	2.43			4.83
06/2004	-0.23		2.32		5.15	*	0.03	2.46		4.34
09/2004	0.45	*			4.84	*	0.14			3.99
12/2004	6.74		7.22		6.73	*	7.18	7.33	9.97	6.08
03/2005	-1.31				5.76	*	-1.25			5.19
06/2005	1.99	*	0.65	*	5.94	*	1.60	0.33		5.29
09/2005	3.53	*			6.51	*	3.11			5.79
12/2005	2.14	*	5.74	*	6.65	*	1.88	5.05	5.40	5.91
03/2006	3.59	*			7.14	*	3.26			6.35
06/2006	-0.88		2.67	*	6.52	*	-0.62	2.62		5.84
09/2006	4.64				7.18	*	4.76			6.56
12/2006	5.79	*	10.69	*	8.02	*	5.30	10.31	13.20	7.33
03/2007	1.36				7.90	*	1.47			7.27
06/2007	4.65	*	6.07	*	8.42	*	3.90	5.43		7.67
09/2007	2.38	*			8.48	*	2.37			7.76

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE POLICY INDEX.

**COMPOSITE  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT				POLICY INDEX			
	QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 12/2001	QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 12/2001
12/2007	-1.90	0.43	6.52	7.77 *	-0.87	1.48	6.99	7.27
03/2008	-8.45			5.94	-5.35			6.04
06/2008	-1.35	-9.69		5.48	-1.12	-6.40		5.61
09/2008	-8.99			3.82	-6.72			4.32

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
 ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

03/31/2008 - PRESENT

- 25% LB AGGREGATE BOND
- 25% S&P 500
- 20% MSCI NET EAFE
- 15% NCREIF ODCE INDEX
- 15% RUSSELL 2000

01/31/1988 - 03/31/2008

- 50% S&P 500
- 35% LB AGGREGATE BOND
- 15% MSCI NET EAFE

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE POLICY INDEX.

**PRINCIPAL LARGE CAP STOCK INDEX  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT						S&P 500			
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY	SINCE	12/1994	QUARTERLY	SEMI	ANNUALLY	SINCE
03/1995	9.80	*			9.80	*	9.74			9.74
06/1995	9.62	*	20.36	*	20.36	*	9.55	20.21		20.21
09/1995	8.01	*			30.00	*	7.95			29.77
12/1995	6.11	*	14.61	*	37.95	*	6.02	14.45	37.58	37.58
03/1996	5.40	*			34.91	*	5.37			34.59
06/1996	4.58	*	10.23	*	32.23	*	4.49	10.10		31.89
09/1996	3.17	*			29.34	*	3.09			29.00
12/1996	8.42	*	11.86	*	23.30	*	8.34	11.68	22.96	30.06
03/1997	2.77	*			28.17	*	2.68			27.81
06/1997	17.49	*	20.74	*	33.36	*	17.46	20.61		33.01
09/1997	7.58	*			33.41	*	7.49			33.05
12/1997	2.96	*	10.76	*	33.74	*	2.87	10.58	33.36	31.15
03/1998	14.01	*			34.07	*	13.95			33.71
06/1998	3.37	*	17.85	*	32.54	*	3.31	17.72		32.19
09/1998	-9.83	*			26.54	*	-9.95			26.18
12/1998	21.37	*	9.44	*	28.98	*	21.30	9.23	28.58	30.51
03/1999	5.04	*			30.32	*	4.98			29.96
06/1999	7.12	*	12.52	*	30.39	*	7.05	12.38		30.03
09/1999	-6.15	*			26.88	*	-6.25			26.52
12/1999	14.97	*	7.90	*	21.41	*	14.88	7.70	21.04	28.56
03/2000	2.34	*			27.94	*	2.29			27.58
06/2000	-2.58	*	-0.30	*	25.91	*	-2.66	-0.42		25.56
09/2000	-0.92	*			24.46	*	-0.97			24.11
12/2000	-7.71	*	-8.56	*	-8.83	*	-7.83	-8.72	-9.11	21.34
03/2001	-11.90				18.31	*	-11.86			18.00
06/2001	5.73		-6.85		18.56	*	5.86	-6.69		18.28
09/2001	-14.59	*			15.10	*	-14.68			14.81

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE S&P 500.

**PRINCIPAL LARGE CAP STOCK INDEX  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT						S&P 500				
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY		SINCE	QUARTERLY	SEMI	ANNUALLY	SINCE	
12/2001	10.74	*	-5.42	*	-11.90	16.20	*	10.69	-5.56	-11.88	15.92
03/2002	0.25					15.64	*	0.27			15.37
06/2002	-13.39	*	-13.17			12.90	*	-13.40	-13.16		12.64
09/2002	-17.27	*				9.74	*	-17.28			9.50
12/2002	8.42		-10.30		-22.12	10.53	*	8.43	-10.30	-22.11	10.30
03/2003	-3.16					9.77	*	-3.15			9.55
06/2003	15.36		11.71			11.33	*	15.40	11.77		11.11
09/2003	2.63					11.31	*	2.64			11.11
12/2003	12.10		15.05		28.53	12.40	*	12.18	15.14	28.69	12.21
03/2004	1.67					12.25	*	1.70			12.06
06/2004	1.72	*	3.42			12.11	*	1.71	3.44		11.93
09/2004	-1.87	*				11.56	*	-1.87			11.39
12/2004	9.21		7.17		10.83	12.24	*	9.23	7.19	10.87	12.07
03/2005	-2.12	*				11.69	*	-2.15			11.52
06/2005	1.37	*	-0.78	*		11.54	*	1.36	-0.82		11.38
09/2005	3.59					11.63	*	3.61			11.47
12/2005	2.08		5.74		4.92	11.56	*	2.09	5.77	4.90	11.40
03/2006	4.11					11.69	*	4.21			11.54
06/2006	-1.50		2.55			11.27	*	-1.44	2.71		11.14
09/2006	5.60					11.53	*	5.67			11.41
12/2006	6.60		12.57		15.44	11.87	*	6.70	12.74	15.80	11.76
03/2007	0.61					11.67	*	0.64			11.56
06/2007	6.20		6.84			11.97	*	6.28	6.96		11.86
09/2007	1.96					11.89	*	2.03			11.79

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE S&P 500.

**PRINCIPAL LARGE CAP STOCK INDEX  
 TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT					S&P 500			
	QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 12/1994		QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 12/1994
12/2007	-3.43	-1.53	5.21	11.35	*	-3.33	-1.37	5.49	11.26
03/2008	-9.62			10.28	*	-9.45			10.21
06/2008	-2.66	*	-12.02	9.86	*	-2.73	-11.91		9.79
09/2008	-8.37	*		8.97	*	-8.37			8.91

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
 ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

12/31/1994 - PRESENT  
 100% S&P 500

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE S&P 500.

**PRINCIPAL INTERNATIONAL STOCK  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT					MSCI NET EAFE				
	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994
03/1995	-0.66				-0.66	1.87				1.87
06/1995	9.50	*	8.78	*	8.78	0.73	2.61			2.61
09/1995	5.14	*			14.37	4.18				6.90
12/1995	1.88		7.12		16.52	4.05	8.39	11.22		11.22
03/1996	8.60	*			20.72	2.89				11.39
06/1996	4.19	*	13.15	*	20.24	1.59	4.52			10.56
09/1996	3.20	*			19.24	-0.12				8.91
12/1996	8.40	*	11.87	*	21.45	1.59	1.47	6.06		8.61
03/1997	3.66	*			20.77	-1.56				6.87
06/1997	10.83		14.89	*	23.48	12.97	11.21			11.47
09/1997	5.70	*			23.61	-0.70				10.09
12/1997	-5.72	*	-0.35	*	19.08	-7.84	-8.48	1.77		6.28
03/1998	15.53	*			22.83	14.71				10.35
06/1998	-0.26		15.23		20.95	1.07	15.94			9.91
09/1998	-17.09				13.60	-14.22				4.84
12/1998	17.71		-2.41		17.39	20.65	3.49	19.99		9.55
03/1999	3.22	*			17.16	1.39				9.32
06/1999	2.95	*	6.26	*	16.88	2.54	3.96			9.39
09/1999	2.66				16.57	4.39				9.86
12/1999	16.21		19.30		19.21	16.99	22.13	26.97		12.83
03/2000	3.60	*			19.01	-0.10				12.16
06/2000	-1.33	*	2.22	*	17.79	-3.96	-4.06			10.76
09/2000	-9.24				15.00	-8.06				8.67
12/2000	0.83	*	-8.49	*	14.49	-2.69	-10.53	-14.16		7.81
03/2001	3.60	*			14.52	-13.71				4.98
06/2001	-0.75	*	2.82	*	13.79	-1.05	-14.61			4.61
09/2001	-15.01				10.55	-14.00				2.13

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE MSCI NET EAFE.



**PRINCIPAL INTERNATIONAL STOCK  
TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT							MSCI NET EAFE				
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY		SINCE		QUARTERLY	SEMI	ANNUALLY	SINCE	
						12/1994					12/1994	
12/2001	9.47	*	-6.96	*	-4.33	*	11.59	*	6.98	-7.99	-21.44	3.04
03/2002	-0.48						11.09	*	0.51			3.01
06/2002	-1.43	*	-1.90				10.49	*	-2.12	-1.62		2.61
09/2002	-18.28	*					7.31	*	-19.73			-0.34
12/2002	6.47	*	-12.99	*	-14.65	*	7.91	*	6.45	-14.56	-15.94	0.45
03/2003	-7.88	*					6.60	*	-8.20			-0.60
06/2003	17.86		8.57				8.47	*	19.27	9.49		1.50
09/2003	5.62						8.90	*	8.12			2.37
12/2003	17.72	*	24.34		34.99		10.63	*	17.08	26.59	38.60	4.11
03/2004	4.24						10.82	*	4.34			4.48
06/2004	-0.77		3.44				10.44	*	0.22	4.56		4.38
09/2004	1.89	*					10.37	*	-0.28			4.23
12/2004	15.94	*	18.13	*	22.19	*	11.74	*	15.32	15.00	20.24	5.62
03/2005	0.90	*					11.53	*	-0.17			5.46
06/2005	1.62	*	2.53	*			11.41	*	-1.01	-1.17		5.23
09/2005	15.34	*					12.62	*	10.38			6.07
12/2005	6.01	*	22.27	*	25.37	*	12.91	*	4.08	14.88	13.54	6.32
03/2006	11.91	*					13.74	*	9.40			7.02
06/2006	-0.08		11.81	*			13.41	*	0.70	10.16		6.93
09/2006	2.63						13.36	*	3.93			7.13
12/2006	11.51	*	14.44		27.96	*	14.09	*	10.35	14.69	26.34	7.86
03/2007	3.61						14.12	*	4.08			8.04
06/2007	8.88	*	12.81	*			14.59	*	6.40	10.74		8.41
09/2007	4.77	*					14.71	*	2.18			8.42

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE MSCI NET EAFE.

**PRINCIPAL INTERNATIONAL STOCK  
 TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT								MSCI NET EAFE			
	SEMI						SINCE		SEMI			SINCE
	QUARTERLY	ANNUALLY	ANNUALLY	ANNUALLY	ANNUALLY	ANNUALLY	12/1994		QUARTERLY	ANNUALLY	ANNUALLY	12/1994
12/2007	-1.49	*	3.21	*	16.43	*	14.27	*	-1.75	0.39	11.17	8.11
03/2008	-10.03						13.08	*	-8.91			7.19
06/2008	1.65	*	-8.55	*			12.96	*	-2.25	-10.96		6.87
09/2008	-24.11						10.47	*	-20.56			4.97

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
 ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

12/31/1994 - PRESENT  
 100% MSCI NET EAFE

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE MSCI NET EAFE.

**MANNING AND NAPIER  
 TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT			SINCE 02/2008	RUSSELL 2000			SINCE 02/2008
	QUARTERLY	SEMI ANNUALLY	ANNUALLY		QUARTERLY	SEMI ANNUALLY	ANNUALLY	
06/2008	-7.46				0.58			1.00
09/2008	-7.04				-1.11			-0.12

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
 ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

2/1/2008 - PRESENT  
 100% RUSSELL 2000

*THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE RUSSELL 2000.*

### PRINCIPAL BOND AND MORTGAGE TOTAL FUND TIME WEIGHTED RATES OF RETURN

DATE	ACCOUNT						LB AGGREGATE BOND			
	QUARTERLY	SEMI	ANNUALLY	ANNUALLY	SINCE	12/1994	QUARTERLY	SEMI	ANNUALLY	SINCE
03/1995	5.28	*			5.28	*	5.04			5.04
06/1995	6.51	*	12.13	*	12.13	*	6.09	11.44		11.44
09/1995	2.05	*			14.43	*	1.96			13.63
12/1995	4.65	*	6.80	*	19.75	*	4.26	6.31	18.47	18.47
03/1996	-1.26	*			14.35	*	-1.77			12.89
06/1996	0.66	*	-0.61	*	12.31	*	0.57	-1.21		11.06
09/1996	2.34	*			11.93	*	1.85			10.55
12/1996	3.37	*	5.79	*	12.21	*	3.00	4.90	3.63	10.80
03/1997	0.07	*			10.82	*	-0.56			9.27
06/1997	4.35	*	4.42	*	11.57	*	3.68	3.10		9.89
09/1997	3.69	*			11.93	*	3.33			10.26
12/1997	2.92		6.72	*	11.95	*	2.95	6.38	9.68	10.43
03/1998	1.96	*			11.65	*	1.54			10.10
06/1998	2.52	*	4.53	*	11.57	*	2.34	3.92		10.07
09/1998	3.83				11.87	*	4.23			10.59
12/1998	0.64	*	4.49		11.27	*	0.34	4.58	8.67	9.99
03/1999	0.39	*			10.67	*	-0.51			9.24
06/1999	-0.89		-0.50	*	9.83	*	-0.88	-1.38		8.49
09/1999	1.07	*			9.53	*	0.68			8.18
12/1999	0.04	*	1.11	*	9.05	*	-0.12	0.56	-0.83	7.73
03/2000	2.64	*			9.14	*	2.21			7.80
06/2000	1.82	*	4.51	*	9.06	*	1.73	3.98		7.77
09/2000	3.43	*			9.29	*	3.02			7.97
12/2000	4.62	*	8.21	*	13.09	*	4.21	7.36	11.63	8.37
03/2001	2.64				9.76	*	3.03			8.54
06/2001	0.91	*	3.57		9.52	*	0.56	3.60		8.29
09/2001	4.74	*			9.90	*	4.62			8.70

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE LB AGGREGATE BOND.

### PRINCIPAL BOND AND MORTGAGE TOTAL FUND TIME WEIGHTED RATES OF RETURN

DATE	ACCOUNT					LB AGGREGATE BOND				
	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994	QUARTERLY	SEMI ANNUALLY	ANNUALLY		SINCE 12/1994
12/2001	-0.09	4.65	8.39		9.52 *	0.04	4.65	8.42		8.38
03/2002	0.17	*			9.20 *	0.10				8.09
06/2002	3.76	*	3.94	*	9.42 *	3.70	3.80			8.34
09/2002	4.57				9.73 *	4.59				8.69
12/2002	1.67	*	6.32	*	10.50 *	1.57	6.23	10.27		8.61
03/2003	1.72	*			9.56 *	1.39				8.52
06/2003	2.92	*	4.69	*	9.64 *	2.50	3.92			8.58
09/2003	0.06	*			9.36 *	-0.14				8.30
12/2003	0.96	*	1.02	*	5.76 *	0.32	0.18	4.11		8.10
03/2004	2.95	*			9.29 *	2.65				8.18
06/2004	-2.12	*	0.77	*	8.79 *	-2.44	0.15			7.68
09/2004	3.42	*			8.93 *	3.20				7.82
12/2004	1.33	*	4.80	*	5.60 *	0.95	4.18	4.34		7.72
03/2005	-0.36	*			8.57 *	-0.48				7.48
06/2005	2.96		2.59	*	8.66 *	3.01	2.52			7.60
09/2005	-0.16	*			8.44 *	-0.68				7.34
12/2005	0.80	*	0.64	*	3.24 *	0.59	-0.09	2.43		7.23
03/2006	-0.48	*			8.08 *	-0.64				7.00
06/2006	-0.19		-0.67	*	7.88 *	-0.08	-0.72			6.84
09/2006	3.91	*			8.06 *	3.81				7.03
12/2006	1.53	*	5.50	*	4.79 *	1.24	5.09	4.33		6.98
03/2007	1.62	*			7.99 *	1.50				6.97
06/2007	-0.86		0.74		7.75 *	-0.52	0.97			6.78
09/2007	1.79				7.74 *	2.85				6.88

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE LB AGGREGATE BOND.

**PRINCIPAL BOND AND MORTGAGE  
 TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT					LB AGGREGATE BOND			
	QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 12/1994		QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 12/1994
12/2007	1.20	3.01	3.77	7.69	*	3.00	5.94	6.96	6.98
03/2008	-1.75			7.39	*	2.17			7.02
06/2008	-0.43	*	-2.17	7.22	*	-1.02	1.13		6.80
09/2008	-4.66			6.71	*	-0.48			6.64

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
 ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

12/31/1994 - PRESENT  
 100% LB AGGREGATE BOND

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE LB AGGREGATE BOND.

**PRUDENTIAL**  
**TOTAL FUND TIME WEIGHTED RATES OF RETURN**

DATE	ACCOUNT				NCREIF ODCE INDEX			
	QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 03/2008	QUARTERLY	SEMI ANNUALLY	ANNUALLY	SINCE 03/2008
06/2008	0.66	*		0.66	0.40			0.40
09/2008	0.40	*		1.06	-0.52			-0.12

THE POLICY INDEX REFLECTS THE RETURNS OF THE MANAGER'S ASSET  
 ALLOCATION IF INVESTED IN THE MARKETS REPRESENTED BY THE FOLLOWING INDEXES:

3/31/2008 - PRESENT  
 100% NCREIF ODCE INDEX

THE ASTERISKS INDICATE THOSE PERIODS DURING WHICH THE TOTAL FUND OUTPERFORMED THE NCREIF ODCE INDEX.

**COMPOSITE  
TOTAL FUND POLICY INDEX****TOTAL FUND BENCHMARK**

03/31/2008 - Present

25%	LB AGGREGATE BOND
25%	S&P 500
20%	MSCI NET EAFE
15%	NCREIF ODCE INDEX
15%	RUSSELL 2000

01/31/1988 - 03/31/2008

50%	S&P 500
35%	LB AGGREGATE BOND
15%	MSCI NET EAFE



## **COMPOSITE RISK MEASURES REPORT EXPLANATION**

The evaluation of a fund's performance should extend beyond return to encompass measures of risk. The following page is used to determine the level of risk to which the fund has been exposed, and whether the return has been commensurate with the risk taken. All measures are calculated for both the fund and the policy as well as the difference between the two. Up to four time periods are evaluated depending on the age of the fund.

**# Of Negative Qtrs/# Of Positive Qtrs:** Number of negative quarters shows the number of quarters in which the return was less than zero, and the number of positive quarters is the number of quarterly returns which were greater or equal to zero.

**Batting Average:** The batting average is a measure of consistency. It shows the percent of the quarters the fund has beaten the policy and the percent of the quarters the policy has beat the fund. A high average for the fund (e.g. over 50) is desirable, indicating the fund has beaten the policy frequently.

**Worst Quarter/Best Quarter/Range:** The worst quarter is the lowest quarterly return experienced during the period, a measure of downside risk. The best quarter is the highest quarterly return, and the range is the difference of the high and low, and indicates dispersion.

**Worst 4 Quarters:** The four consecutive quarters during which the portfolio realized its worst cumulative performance since its inception.

**Standard Deviation:** Standard deviation measures the total volatility of the fund, by measuring dispersion. Higher standard deviation indicates higher risk. If the quarterly or monthly returns are all the same the standard deviation will be zero. The more they vary from one another, the higher the standard deviation. Thus, it measures uncertainty, which is a measure of risk.

**Alpha/Beta/R-Squared:** If the policy is appropriate, then the alpha should be positive, the beta close to one, and the r-squared should be high. Beta measures risk relative to the policy. A beta of 1 suggests risk equivalent to the policy. Higher betas indicate higher relative risk. A beta of 1.2 indicates 20% more risk than the policy. The alpha measures the return adjusting for beta. The higher the alpha, the better. R-squared measures the relationship between the policy and the fund. A high r-squared means the returns of the fund can largely be explained by movements of the policy. The higher the r-squared, the more reliable the alpha and the beta. R-squared may range from 0 to 100. Beta, alpha and r-squared are derived from regression analysis using the fund and policy returns as the dependent and independent variables respectively. Roughly, one would expect the fund's performance to equal the return of the policy multiplied by the beta plus the alpha.

**Sharpe Ratio/Treynor Ratio:** The Sharpe and Treynor ratios are similar. The Sharpe ratio is the excess return per unit of total risk as measured by standard deviation. The Treynor ratio is the excess return per unit of market risk as measured by beta. Both of these should be compared against the corresponding value for the policy. Higher numbers are better, indicating more return for the level of risk that was experienced.

**Tracking Error/Information Ratio:** Tracking error is the standard deviation of the portfolio's residual (i.e., excess) returns. The lower the tracking error, the closer the portfolio returns have been to its risk index. Aggressively managed portfolios would be expected to have higher tracking errors than portfolios with a more conservative investment style. The information ratio is equal to the annualized excess return of the portfolio divided by the standard deviation of its annualized excess returns (i.e., the tracking error). The statistic can be used to compare added value of more than one portfolio – a low relative return and low tracking risk portfolio can have the same value added as a portfolio with high relative return and high tracking risk. The information ratio is a measure of the efficiency with which the excess returns have been generated. Since the information ratio is a determination of the value added vis-à-vis the risk benchmark, the higher the ratio, the better.



# LargeCap S&P 500 Index Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.

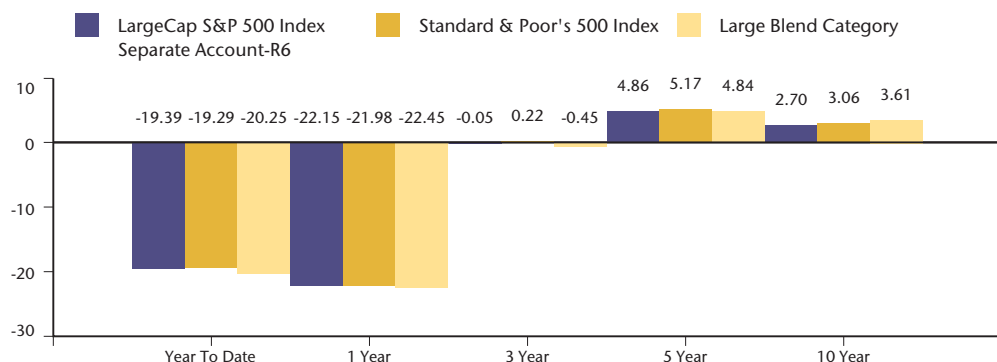


## Portfolio managers

**Dirk Laschanzky**, CFA. Since 10/01/2003. M.B.A., U of Iowa

**Scott Smith** Since 12/31/2007. B.S., Iowa State University

## Long-term returns % as of 09/30/2008



## Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-19.39	-22.15	-0.05	4.86	2.70
Standard & Poor's 500 Index %	-19.29	-21.98	0.22	5.17	3.06
Large Blend Category %	-20.25	-22.45	-0.45	4.84	3.61
Morningstar Percentile Rankings	-	45	41	47	60
# of Funds in Category	2134	2072	1719	1353	667

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.18	15.46	4.58	10.49	28.18
Standard & Poor's 500 Index %	5.49	15.79	4.91	10.88	28.68
Large Blend Category %	6.16	14.17	5.88	10.02	27.05
Morningstar Percentile Rankings	55	29	64	43	33
# of Funds in Category	2090	1980	1743	1611	1526

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 08/31/2008

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 09/30/2008 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.27	-0.29
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	11.36	10.33
Mean	-0.05	4.86
Sharpe Ratio	-0.30	0.20
Excess Return	-0.26	-0.31
Excess Risk	0.04	0.04
Information Ratio	-6.12	-7.70

## Operations

Total Investment Expense Net	0.31%
Total Investment Expense Gross	0.31%
Inception Date	01/01/1990
Total Net Assets (mil)	\$5,737.94



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# LargeCap S&P 500 Index Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.91	Healthcare	12.74	Consumer Goods	9.84
Hardware	10.06	Consumer Services	7.30	Industrial Materials	13.00
Media	2.86	Business Services	4.79	Energy	13.89
Telecom	3.19	Financial Services	14.84	Utilities	3.57

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LargeCap S&P 500 Index Separate Account-R6.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Each index based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged results for the market segment the selected stocks or bonds represent. There is no assurance an index based investment option will match the performance of the index tracked.

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Formerly known as Large-Cap Stock Index Separate Account.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# Diversified International Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment option normally invests the majority of assets in companies in at least three different countries. It invests in securities of companies with their principal place of business or principal office outside of the United States; companies for which the principal securities trade on a foreign exchange; and companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from goods or services produced or sold outside of the United States. The Separate Account may invest in securities of companies with small to medium market capitalizations.



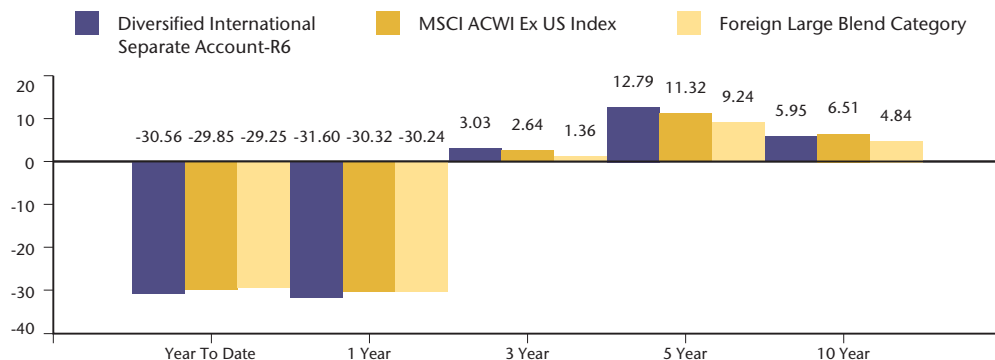
## Portfolio managers

**Paul H. Blankenhagen**, CFA. Since 12/01/2003. M.S., Drake U

**Juliet Cohn** Since 05/01/2004. B.S., Trinity C

**Christopher Ibach**, CFA. Since 05/30/2007. M.B.A., U of Iowa

## Long-term returns % as of 09/30/2008



## Performance disclosure

*Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.*

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-30.56	-31.60	3.03	12.79	5.95
MSCI ACWI Ex US Index %	-29.85	-30.32	2.64	11.32	6.51
Foreign Large Blend Category %	-29.25	-30.24	1.36	9.24	4.84
Morningstar Percentile Rankings	-	66	20	4	22
# of Funds in Category	803	775	557	453	239

Annual Returns	2007	2006	2005	2004	2003
Total Return %	16.38	27.99	24.14	20.99	33.73
MSCI ACWI Ex US Index %	16.65	26.65	16.62	20.91	40.83
Foreign Large Blend Category %	12.71	24.77	14.72	17.39	33.58
Morningstar Percentile Rankings	20	15	3	10	43
# of Funds in Category	743	657	608	551	504

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 08/31/2008

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 09/30/2008 Relative to MSCI ACWI Ex US Index

	3Yr	5Yr
Alpha	0.06	0.69
Beta	1.03	1.03
R-Squared	96.89	97.05
Standard Deviation	17.39	15.46
Mean	3.04	12.79
Sharpe Ratio	0.03	0.66
Excess Return	-0.05	0.99
Excess Risk	3.08	2.69
Information Ratio	-0.02	0.37

## Operations

Total Investment Expense Net	1.06%
Total Investment Expense Gross	1.06%
Inception Date	05/20/1987
Total Net Assets (mil)	\$3,300.46



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# Diversified International Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008

% of Assets		Top ten holdings		% of net assets	Analysis	
	Non-U.S. Stocks 99.11	1. Nestle		1.76	# of Stock Hldgs	431
	Cash 0.65	2. TOTAL		1.43	# of Bond Hldgs	1
	U.S. Stocks 0.14	3. E.ON		1.35	# of Other Hldgs	3
	Other 0.11	4. HSBC Holdings PLC		1.32	GeoAvgCap (mil)	\$25,903.69
		5. Roche Holding Ltd		1.31	Turnover Ratio	89%
		6. Banco Santander		1.26	P/C Ratio	6.71
		7. BG Group PLC		1.13	P/E Ratio	11.63
		8. Nintendo		1.09	P/B Ratio	1.88
		9. Potash Corporation of Saskatchewan, Inc.		1.00		
		10. Telefonica		0.98		
		% of net assets in top ten holdings*		12.64		

Top 5 Countries		Regional exposure	
	% of net assets		% of net assets
United Kingdom	20.32	Europe	57.38
Japan	16.83	Japan	16.84
Canada	8.71	Pacific Rim	11.93
Switzerland	7.03	Other	11.38
France	6.84	Latin America	2.32
		United States	0.14

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal Diversified International Separate Account-R6.

MSCI ACWI Ex US Index is a free float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the US.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# Manning & Napier SmallCap A Fund as of 09/30/2008

## Investment Strategy

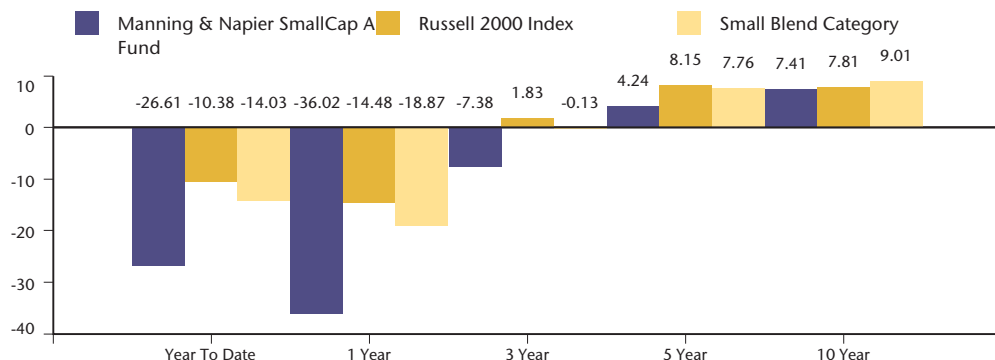
The investment seeks long-term growth. The fund invests at least 80% of assets in securities of companies with small market capitalizations as a company with a market capitalization of less than \$3 billion at the time of purchase. It may invest in U.S. and foreign stocks, including those in emerging markets, American Depositary Receipts (ADRs) and other U.S. dollar denominated securities of foreign issuers.

Investment Advisor: Manning & Napier Advisors

## Portfolio managers

**Jeffrey A. Herrmann**, CFA. Since 10/01/1992. B.A., Clarkson U  
**Michael J. Magiera**, CFA. Since 10/01/1992. M.B.A., U of Rochester  
**Jeffrey Coons**, CFA. Since 09/01/1993. M.B.A., Duke  
**Christian A. Andreach** Since 10/18/2002. M.B.A., U of Rochester  
**Jeffrey W. Donlon**, CFA. Since 04/23/2004. M.B.A., Duke U

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-26.61	-36.02	-7.38	4.24	7.41
Russell 2000 Index %	-10.38	-14.48	1.83	8.15	7.81
Small Blend Category %	-14.03	-18.87	-0.13	7.76	9.01
Morningstar Percentile Rankings	-	98	97	90	78
# of Funds in Category	681	664	556	438	195

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-9.32	18.06	14.11	19.81	37.82
Russell 2000 Index %	-1.57	18.37	4.55	18.33	47.25
Small Blend Category %	-1.10	15.03	6.75	18.94	43.41
Morningstar Percentile Rankings	92	16	9	43	72
# of Funds in Category	645	608	563	521	446

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Blend

## Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell 2000 Index

	3Yr	5Yr
Alpha	-8.73	-3.49
Beta	1.11	1.03
R-Squared	81.17	80.12
Standard Deviation	18.02	16.90
Mean	-7.38	4.24
Sharpe Ratio	-0.56	0.14
Excess Return	-9.21	-3.91
Excess Risk	7.94	7.55
Information Ratio	-1.16	-0.52

## Operations

Total Investment Expense Net	1.14%
Total Investment Expense Gross	1.14%
Inception Date	04/30/1992
Total Net Assets (mil)	\$142.65
12b-1 Fees	-
Ticker	MNSMX



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# Manning & Napier SmallCap A Fund as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	10.22	Healthcare	14.69	Consumer Goods	6.14
Hardware	13.83	Consumer Services	8.53	Industrial Materials	16.68
Media	9.46	Business Services	8.04	Energy	6.67
Telecom	0.00	Financial Services	5.74	Utilities	0.00

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

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*Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting [www.principal.com](http://www.principal.com), or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.*

Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 10% of the Russell 3000 total market capitalization.

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Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

\* Values may exceed 100% if both long and short positions are included in the portfolio.



# Bond and Mortgage Separate Account-I2 as of 09/30/2008

## Investment Strategy

The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security selection. The Separate Account may enter into reverse repurchase agreements to attempt to enhance portfolio return and income.



## Portfolio managers

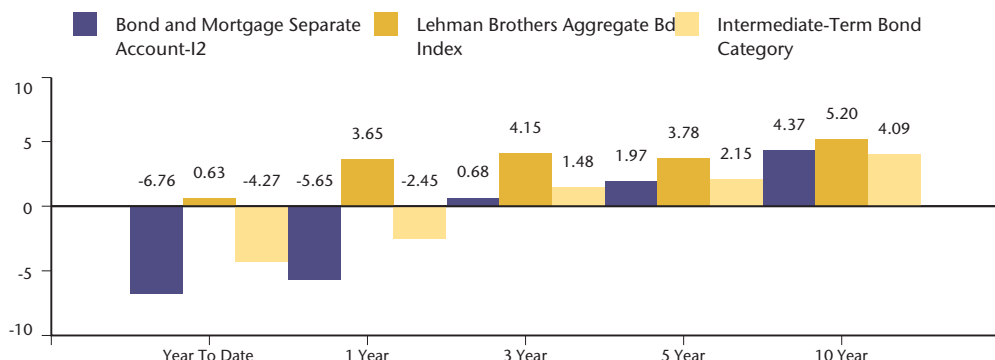
**William C. Armstrong**, CFA. Since 01/01/1997. Master, U of Iowa

**Timothy R. Warrick**, CFA. Since 06/01/2002. M.B.A., Drake U

**L. Phillip Jacoby IV** Since 11/07/2005. B.S., Boston U

**Bernard M. Sussman** Since 11/07/2005. M.B.A., Cornell U

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-6.76	-5.65	0.68	1.97	4.37
Lehman Brothers Aggregate Bd Index %	0.63	3.65	4.15	3.78	5.20
Intermediate-Term Bond Category %	-4.27	-2.45	1.48	2.15	4.09
Morningstar Percentile Rankings	-	78	74	66	38
# of Funds in Category	1149	1126	984	848	456

Annual Returns	2007	2006	2005	2004	2003
Total Return %	3.83	4.72	2.64	5.02	5.21
Lehman Brothers Aggregate Bd Index %	6.97	4.33	2.43	4.34	4.10
Intermediate-Term Bond Category %	4.70	4.15	1.80	3.91	5.10
Morningstar Percentile Rankings	78	19	9	14	34
# of Funds in Category	1097	1092	1043	1035	952

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Intermediate-Term Bond

## Morningstar Style Box™

As of 08/31/2008

Duration			Quality
Short	Int	Long	
			High
			Medium
			Low

## Risk and Return Statistics

as of 09/30/2008 Relative to  
Lehman Brothers Aggregate Bd Index

	3Yr	5Yr
Alpha	-3.36	-1.73
Beta	0.97	0.96
R-Squared	57.63	71.73
Standard Deviation	3.64	3.53
Mean	0.69	1.97
Sharpe Ratio	-0.94	-0.34
Excess Risk	2.25	1.85
Information Ratio	-1.54	-0.98

## Operations

Total Investment Expense Net	0.55%
Total Investment Expense Gross	0.55%
Inception Date	02/01/1983
Total Net Assets (mil)	\$5,512.61



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# Bond and Mortgage Separate Account-I2 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Credit Analysis

	% Bonds
AAA	56.15
AA	6.73
A	13.30
BBB	14.66
BB	3.90
B	3.81
Below B	1.26
Not Rated	0.18

## Statistics

Avg Eff Duration (Yrs)	4.99
Avg Eff Maturity (Yrs)	9.29
Avg Credit Quality	AA
Avg Weighted Coupon	5.53
Avg Weighted Price	95.95

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The full name of this investment option is Principal Bond and Mortgage Separate Account-I2.

Lehman Brothers Aggregate Bd Index represents securities that are domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

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Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# Money Market Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks a high a level of current income consistent with preservation of principal and maintenance of liquidity. It invests in a portfolio of high quality, short-term money market instruments. The investments are U.S. dollar denominated securities which the sub-advisor believes present minimal credit risks. The sub-advisor maintains a dollar weighted average portfolio maturity of 90 days or less.

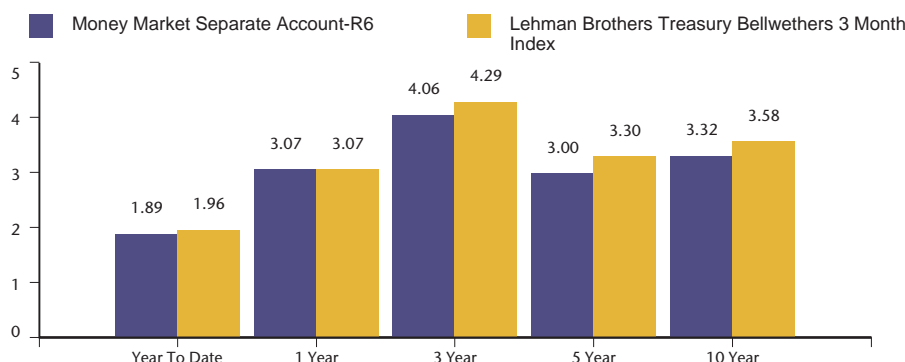


## Portfolio managers

**Alice B. Robertson** Since 05/01/1999. Master, DePaul U

**Tracy Reeg** Since 08/31/2004. B.S., U of Northern Iowa

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.89	3.07	4.06	3.00	3.32
Lehman Brothers Treasury Bellwethers 3 Month Index %	1.96	3.07	4.29	3.30	3.58

Annual Returns	2007	2006	2005	2004	2003
Total Return %	4.86	4.55	2.72	0.87	0.76



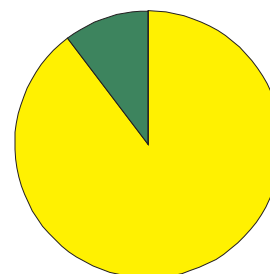
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## Operations

Total Investment Expense Net	0.46%
Total Investment Expense Gross	0.56%
Waiver Expiration Date	12/31/2008
Inception Date	12/10/1980
Total Net Assets (mil)	\$4,869.31

## Portfolio information

Composition as of 08/31/2008



## % of Assets

Other	89.62
U.S. Bonds	10.33
Cash	0.05

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	41
# of Other Hldgs	64

## Portfolio composition

Top ten holdings	% of net assets
Morgan Stanley	2.69
BANK OF AMERICA CORP	2.50
CITIGROUP FUNDING INC	2.50
HSBC FINANCE CORP	2.48
AMERICAN EXPRESS CREDIT CORP	2.48
TOYOTA MOTOR CREDIT CORP	2.44
JP MORGAN & CO.	2.38
GENERAL ELECTRIC CAPITAL CORP.	2.38
CARGILL INC	2.38
CORP ANDINA DE FOMENTO	2.33

% of net assets in top ten holdings\* 24.57%

\*Values may exceed 100% if both long and short positions are included in the portfolio.

## Credit analysis

A1+	67.00
A1	33.00
A2	0.00

## Statistics

Avg Eff Maturity (Days)	48.00
7-Day Yield %	2.25

# Money Market Separate Account-R6 as of 09/30/2008

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Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

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The 7-Day Yield % more closely reflects the current earnings of this money market investment option than the total return displayed.

This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Although this investment option seeks to preserve the value of an investment, it is possible to lose money by investing in this portfolio.

Principal Life is voluntarily waiving a portion of its fees collected from the Money Market Separate Account through December 31, 2008. This waiver is equal to .10% annually.

Lehman Brothers Treasury Bellwethers 3 Month Index is composed of public obligations of the U. S. Treasury with a maturity of three months.